

JPMORGAN CHASE & CO
Form 424B2
December 18, 2018

The information in this preliminary pricing supplement is not complete and may be changed. This preliminary pricing supplement is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to completion dated December 17, 2018

December 18, 2018 Registration Statement Nos. 333-222672 and 333-222672-01; Rule 424(b)(2)

JPMorgan Chase Financial Company LLC
Structured Investments

Capped Dual Directional Buffered Return Enhanced Notes Linked to the Lesser Performing of the S&P 500[®] Index and the Russell 2000[®] Index due December 23, 2021

Fully and Unconditionally Guaranteed by JPMorgan Chase & Co.

The notes are designed for investors who seek a capped return of 2.00 times any appreciation (with a Maximum Upside Return of at least 26.00%), or a capped, unleveraged return equal to the absolute value of any depreciation (up to the Buffer Amount of 20.00%), of the lesser performing of the S&P 500[®] Index and the Russell 2000[®] Index, which we refer to as the Indices, at maturity.

Investors should be willing to forgo interest and dividend payments and be willing to lose up to 80.00% of their principal amount at maturity.

The notes are unsecured and unsubordinated obligations of JPMorgan Chase Financial Company LLC, which we refer to as JPMorgan Financial, the payment on which is fully and unconditionally guaranteed by JPMorgan Chase & Co. **Any payment on the notes is subject to the credit risk of JPMorgan Financial, as issuer of the notes, and the credit risk of JPMorgan Chase & Co., as guarantor of the notes.**

Payments on the notes are not linked to a basket composed of the Indices. Payments on the notes are linked to the performance of each of the Indices individually, as described below.

Minimum denominations of \$1,000 and integral multiples thereof

The notes are expected to price on or about December 20, 2018 and are expected to settle on or about December 26, 2018.

CUSIP: 48130WMA6

Investing in the notes involves a number of risks. See “Risk Factors” beginning on page PS-10 of the accompanying product supplement, “Risk Factors” beginning on page US-1 of the accompanying underlying supplement and “Selected Risk Considerations” beginning on page PS-4 of this pricing supplement.

Neither the Securities and Exchange Commission (the “SEC”) nor any state securities commission has approved or disapproved of the notes or passed upon the accuracy or the adequacy of this pricing supplement or the accompanying product supplement, underlying supplement, prospectus supplement and prospectus. Any representation to the contrary is a criminal offense.

	Price to Public (1)	Fees and Commissions (2)	Proceeds to Issuer
Per note \$1,000	\$		\$
Total	\$	\$	\$

(1) See “Supplemental Use of Proceeds” in this pricing supplement for information about the components of the price to public of the notes.

(2) J.P. Morgan Securities LLC, which we refer to as JPMS, acting as agent for JPMorgan Financial, will pay all of the selling commissions it receives from us to other affiliated or unaffiliated dealers. If the notes priced today, the selling commissions would be approximately \$20.00 per \$1,000 principal amount note and in no event will these selling commissions exceed \$30.00 per \$1,000 principal amount note. See “Plan of Distribution (Conflicts of Interest)” in the accompanying product supplement.

If the notes priced today, the estimated value of the notes would be approximately \$971.60 per \$1,000 principal amount note. The estimated value of the notes, when the terms of the notes are set, will be provided in the pricing supplement and will not be less than \$960.00 per \$1,000 principal amount note. See “The Estimated Value of the Notes” in this pricing supplement for additional information.

The notes are not bank deposits, are not insured by the Federal Deposit Insurance Corporation or any other governmental agency and are not obligations of, or guaranteed by, a bank.

Pricing supplement to product supplement no. 4-I dated April 5, 2018, underlying supplement no. 1-I dated April 5, 2018 and the prospectus and prospectus supplement, each dated April 5, 2018

Key Terms

Issuer: JPMorgan Chase Financial Company LLC, an indirect, wholly owned finance subsidiary of JPMorgan Chase & Co.

Guarantor: JPMorgan Chase & Co.

Indices: The S&P 500® Index (Bloomberg ticker: SPX) and the Russell 2000® Index (Bloomberg ticker: RTY)

Maximum Upside Return: At least 26.00% (corresponding to a maximum payment at maturity of at least \$1,260.00 per \$1,000 principal amount note) (to be provided in the pricing supplement)

Upside Leverage Factor: 2.00

Buffer Amount: 20.00%

Pricing Date: On or about December 20, 2018

Original Issue Date (Settlement Date): On or about December 26, 2018

Observation Date*: December 20, 2021

Maturity Date*: December 23, 2021

* Subject to postponement in the event of a market disruption event and as described under “General Terms of Notes — Postponement of a Determination Date — Notes Linked to Multiple Underlyings” and “General Terms of Notes — Postponement of a Payment Date” in the accompanying product supplement

Payment at Maturity:

If the Final Value of each Index is greater than its Initial Value, your payment at maturity per \$1,000 principal amount note will be calculated as follows:

$\$1,000 + (\$1,000 \times \text{Lesser Performing Index Return} \times \text{Upside Leverage Factor})$, subject to the Maximum Upside Return

If (i) the Final Value of one Index is greater than its Initial Value and the Final Value of the other Index is equal to its Initial Value or is less than its Initial Value by up to the Buffer Amount or (ii) the Final Value of each Index is equal to its Initial Value or is less than its Initial Value by up to the Buffer Amount, your payment at maturity per \$1,000 principal amount note will be calculated as follows:

$\$1,000 + (\$1,000 \times \text{Absolute Index Return of the Lesser Performing Index})$

If the Final Value of either Index is less than its Initial Value by more than the Buffer Amount, your payment at maturity per \$1,000 principal amount note will be calculated as follows:

$\$1,000 + [\$1,000 \times (\text{Lesser Performing Index Return} + \text{Buffer Amount})]$

If the Final Value of either Index is less than its Initial Value by more than the Buffer Amount, you will lose some or most of your principal amount at maturity.

Absolute Index Return: With respect to each Index, the absolute value of the Index Return. For example, if the Index Return of an Index is -5%, its Absolute Index Return will equal 5%.

Lesser Performing Index: The Index with the Lesser Performing Index Return

Lesser Performing Index Return: The lower of the Index Returns of the Indices

Index Return:

With respect to each Index,

$\frac{(\text{Final Value} - \text{Initial Value})}{\text{Initial Value}}$

Initial Value: With respect to each Index, the closing level of that Index on the Pricing Date

Final Value: With respect to each Index, the closing level of that Index on the Observation Date

PS-1 | Structured Investments

Capped Dual Directional Buffered Return Enhanced Notes
Linked to the Lesser Performing of the S&P 500[®] Index and the
Russell 2000[®] Index

Hypothetical Payout Profile

The following table illustrates the hypothetical total return and payment at maturity on the notes linked to two hypothetical Indices. The “total return” as used in this pricing supplement is the number, expressed as a percentage, that results from comparing the payment at maturity per \$1,000 principal amount note to \$1,000. The hypothetical total returns and payments set forth below assume the following:

- an Initial Value for the Lesser Performing Index of 100.00;
- a Maximum Upside Return of 26.00%;
- an Upside Leverage Factor of 2.00; and
- a Buffer Amount of 20.00%.

The hypothetical Initial Value of the Lesser Performing Index of 100.00 has been chosen for illustrative purposes only and may not represent a likely actual Initial Value of either Index. The actual Initial Value of each Index will be the closing level of that Index on the Pricing Date and will be provided in the pricing supplement. For historical data regarding the actual closing levels of each Index, please see the historical information set forth under “The Indices” in this pricing supplement.

Each hypothetical total return or hypothetical payment at maturity set forth below is for illustrative purposes only and may not be the actual total return or payment at maturity applicable to a purchaser of the notes. The numbers appearing in the following table have been rounded for ease of analysis.

Final Value of the Lesser Performing Index	Lesser Performing Index Return	Absolute Index Return of the Lesser Performing Index	Total Return on the Notes	Payment at Maturity
180.00	80.00%	N/A	26.00%	\$1,260.00
165.00	65.00%	N/A	26.00%	\$1,260.00
150.00	50.00%	N/A	26.00%	\$1,260.00
140.00	40.00%	N/A	26.00%	\$1,260.00
135.00	35.00%	N/A	26.00%	\$1,260.00
130.00	30.00%	N/A	26.00%	\$1,260.00
120.00	20.00%	N/A	26.00%	\$1,260.00
113.00	13.00%	N/A	26.00%	\$1,260.00
110.00	10.00%	N/A	20.00%	\$1,200.00
105.00	5.00%	N/A	10.00%	\$1,100.00
101.00	1.00%	N/A	2.00%	\$1,020.00
100.00	0.00%	0.00%	0.00%	\$1,000.00
95.00	-5.00%	5.00%	5.00%	\$1,050.00
90.00	-10.00%	10.00%	10.00%	\$1,100.00
85.00	-15.00%	15.00%	15.00%	\$1,150.00
80.00	-20.00%	20.00%	20.00%	\$1,200.00
70.00	-30.00%	N/A	-10.00%	\$900.00
60.00	-40.00%	N/A	-20.00%	\$800.00
50.00	-50.00%	N/A	-30.00%	\$700.00
40.00	-60.00%	N/A	-40.00%	\$600.00
30.00	-70.00%	N/A	-50.00%	\$500.00
20.00	-80.00%	N/A	-60.00%	\$400.00
10.00	-90.00%	N/A	-70.00%	\$300.00
0.00	-100.00%	N/A	-80.00%	\$200.00

PS-2 | Structured Investments

Capped Dual Directional Buffered Return Enhanced Notes
Linked to the Lesser Performing of the S&P 500[®] Index and the
Russell 2000[®] Index

The following graph demonstrates the hypothetical payments at maturity on the notes for a sub-set of Lesser Performing Index Returns detailed in the table above (-50% to 50%). We cannot give you assurance that the performance of the performance of the Lesser Performing Index will result in the return of any of your principal amount.

How the Notes Work

Index Appreciation Upside Scenario:

If the Final Value of each Index is greater than its Initial Value, investors will receive at maturity the \$1,000 principal amount *plus* a return equal to the Lesser Performing Index Return *times* the Upside Leverage Factor of 2.00, subject to the Maximum Upside Return of at least 26.00%, at maturity. Assuming a hypothetical Maximum Upside Return of 26.00%, an investor will realize the maximum upside payment at maturity at a Final Value of the Lesser Performing Index of 113.00% or more of its Initial Value.

If the closing level of the Lesser Performing Index increases 5.00%, investors will receive at maturity a 10.00% return, or \$1,100.00 per \$1,000 principal amount note.

Assuming a hypothetical Maximum Upside Return of 26.00%, if the closing level of the Lesser Performing Index increases 50.00%, investors will receive at maturity a return equal to the Maximum Upside Return of 26.00%, or \$1,260.00 per \$1,000 principal amount note, which is the maximum upside payment at maturity.

Index Par or Index Depreciation Upside Scenario:

If (i) the Final Value of one Index is greater than its Initial Value and the Final Value of the other Index is equal to or is less than its Initial Value by up to the Buffer Amount of 20.00% or (ii) the Final Value of each Index is equal to its Initial Value or is less than its Initial Value by up to the Buffer Amount of 20.00%, investors will receive at maturity the \$1,000 principal amount *plus* a return equal to the Absolute Index Return of the Lesser Performing Index.

For example, if the closing level of the Lesser Performing Index declines 10.00%, investors will receive at maturity a 10.00% return, or \$1,100.00 per \$1,000 principal amount note.

Downside Scenario:

If the Final Value of either Index is less than its Initial Value by more than the Buffer Amount of 20.00%, investors will lose 1% of the principal amount of their notes for every 1% that the Final Value of the Lesser Performing Index is less than its Initial Value by more than the Buffer Amount.

For example, if the closing level of the Lesser Performing Index declines 60.00%, investors will lose 40.00% of their principal amount and receive only \$600.00 per \$1,000 principal amount note at maturity.

The hypothetical returns and hypothetical payments on the notes shown above apply only if you hold the notes for their entire term. These hypotheticals do not reflect the fees or expenses that would be associated with any sale in the secondary market. If these fees and expenses were included, the hypothetical returns and hypothetical payments shown above would likely be lower.

PS-3 | Structured Investments

Capped Dual Directional Buffered Return Enhanced Notes
Linked to the Lesser Performing of the S&P 500® Index and the
Russell 2000® Index

Selected Risk Considerations

An investment in the notes involves significant risks. These risks are explained in more detail in the “Risk Factors” sections of the accompanying product supplement and underlying supplement.

YOUR INVESTMENT IN THE NOTES MAY RESULT IN A LOSS —

The notes do not guarantee any return of principal. If the Final Value of either Index is less than its Initial Value by more than 20.00%, you will lose 1% of the principal amount of your notes for every 1% that the Final Value of the Lesser Performing Index is less than its Initial Value by more than 20.00%. Accordingly, under these circumstances, you will lose up to 80.00% of your principal amount at maturity.

YOUR MAXIMUM GAIN ON THE NOTES IS LIMITED TO THE MAXIMUM UPSIDE RETURN IF THE LESSER PERFORMING INDEX RETURN IS POSITIVE —

regardless of any appreciation of either Index, which may be significant.

YOUR MAXIMUM GAIN ON THE NOTES IS LIMITED BY THE BUFFER AMOUNT IF THE LESSER PERFORMING INDEX RETURN IS NEGATIVE —

Because the payment at maturity will not reflect the Absolute Index Return of the Lesser Performing Index if its Final Value is less than its Initial Value by more than the Buffer Amount, the Buffer Amount is effectively a cap on your return at maturity if the Lesser Performing Index Return is negative. The maximum payment at maturity if the Lesser Performing Index Return is negative is \$1,200.00 per \$1,000 principal amount note.

CREDIT RISKS OF JPMORGAN FINANCIAL AND JPMORGAN CHASE & CO. —

Investors are dependent on our and JPMorgan Chase & Co.’s ability to pay all amounts due on the notes. Any actual or potential change in our or JPMorgan Chase & Co.’s creditworthiness or credit spreads, as determined by the market for taking that credit risk, is likely to adversely affect the value of the notes. If we and JPMorgan Chase & Co. were to default on our payment obligations, you may not receive any amounts owed to you under the notes and you could lose your entire investment.

AS A FINANCE SUBSIDIARY, JPMORGAN FINANCIAL HAS NO INDEPENDENT OPERATIONS AND HAS LIMITED ASSETS —

As a finance subsidiary of JPMorgan Chase & Co., we have no independent operations beyond the issuance and administration of our securities. Aside from the initial capital contribution from JPMorgan Chase & Co., substantially all of our assets relate to obligations of our affiliates to make payments under loans made by us or other intercompany agreements. As a result, we are dependent upon payments from our affiliates to meet our obligations under the notes. If these affiliates do not make payments to us and we fail to make payments on the notes, you may have to seek payment under the related guarantee by JPMorgan Chase & Co., and that guarantee will rank *pari passu* with all other unsecured and unsubordinated obligations of JPMorgan Chase & Co.

POTENTIAL CONFLICTS —

We and our affiliates play a variety of roles in connection with the notes. In performing these duties, our and JPMorgan Chase & Co.’s economic interests are potentially adverse to your interests as an investor in the notes. It is possible that hedging or trading activities of ours or our affiliates in connection with the notes could result in substantial returns for us or our affiliates while the value of the notes declines. Please refer to “Risk Factors — Risks Relating to Conflicts of Interest” in the accompanying product supplement.

JPMORGAN CHASE & CO. IS CURRENTLY ONE OF THE COMPANIES THAT MAKE UP THE S&P 500® INDEX,

but JPMorgan Chase & Co. will not have any obligation to consider your interests in taking any corporate action that might affect the level of the S&P 500[®] Index.

· YOU ARE EXPOSED TO THE RISK OF DECLINE IN THE LEVEL OF EACH INDEX —

Payments on the notes are not linked to a basket composed of the Indices and are contingent upon the performance of each individual Index. Poor performance by either of the Indices over the term of the notes may negatively affect your payment at maturity and will not be offset or mitigated by positive performance by the other Index.

PS-4 | Structured Investments

Capped Dual Directional Buffered Return Enhanced Notes
Linked to the Lesser Performing of the S&P 500[®] Index and the
Russell 2000[®] Index

**YOUR PAYMENT AT MATURITY WILL BE DETERMINED BY THE LESSER PERFORMING INDEX.
THE NOTES DO NOT PAY INTEREST.**

**YOU WILL NOT RECEIVE DIVIDENDS ON THE SECURITIES INCLUDED IN EITHER INDEX OR
HAVE ANY RIGHTS WITH RESPECT TO THOSE SECURITIES.**

**AN INVESTMENT IN THE NOTES IS SUBJECT TO RISKS ASSOCIATED WITH SMALL
CAPITALIZATION STOCKS WITH RESPECT TO THE RUSSELL 2000® INDEX —**

Small capitalization companies may be less able to withstand adverse economic, market, trade and competitive conditions relative to larger companies. Small capitalization companies are less likely to pay dividends on their stocks, and the presence of a dividend payment could be a factor that limits downward stock price pressure under adverse market conditions.

LACK OF LIQUIDITY —

The notes will not be listed on any securities exchange. Accordingly, the price at which you may be able to trade your notes is likely to depend on the price, if any, at which JPMS is willing to buy the notes. You may not be able to sell your notes. The notes are not designed to be short-term trading instruments. Accordingly, you should be able and willing to hold your notes to maturity.

**THE FINAL TERMS AND VALUATION OF THE NOTES WILL BE PROVIDED IN THE PRICING
SUPPLEMENT —**

You should consider your potential investment in the notes based on the minimums for the estimated value of the notes and the Maximum Upside Return.

**THE ESTIMATED VALUE OF THE NOTES WILL BE LOWER THAN THE ORIGINAL ISSUE PRICE
(PRICE TO PUBLIC) OF THE NOTES —**

The estimated value of the notes is only an estimate determined by reference to several factors. The original issue price of the notes will exceed the estimated value of the notes because costs associated with selling, structuring and hedging the notes are included in the original issue price of the notes. These costs include the selling commissions, the projected profits, if any, that our affiliates expect to realize for assuming risks inherent in hedging our obligations under the notes and the estimated cost of hedging our obligations under the notes. See “The Estimated Value of the Notes” in this pricing supplement.

**THE ESTIMATED VALUE OF THE NOTES DOES NOT REPRESENT FUTURE VALUES OF THE
NOTES AND MAY DIFFER FROM OTHERS’ ESTIMATES —**

See “The Estimated Value of the Notes” in this pricing supplement.

**THE ESTIMATED VALUE OF THE NOTES IS DERIVED BY REFERENCE TO AN INTERNAL
FUNDING RATE —**

The internal funding rate used in the determination of the estimated value of the notes is based on, among other things, our and our affiliates’ view of the funding value of the notes as well as the higher issuance, operational and ongoing liability management costs of the notes in comparison to those costs for the conventional fixed-rate debt of JPMorgan Chase & Co. The use of an internal funding rate and any potential changes to that rate may have an adverse effect on the terms of the notes and any secondary market prices of the notes. See “The Estimated Value of the Notes” in this pricing supplement.

**THE VALUE OF THE NOTES AS PUBLISHED BY JPMS (AND WHICH MAY BE REFLECTED ON
CUSTOMER ACCOUNT STATEMENTS) MAY BE HIGHER THAN THE THEN-CURRENT ESTIMATED
VALUE OF THE NOTES FOR A LIMITED TIME PERIOD —**

We generally expect that some of the costs included in the original issue price of the notes will be partially paid back to you in connection with any repurchases of your notes by JPMS in an amount that will decline to zero over an initial

predetermined period. See “Secondary Market Prices of the Notes” in this pricing supplement for additional information relating to this initial period. Accordingly, the estimated value of your notes during this initial period may be lower than the value of the notes as published by JPMS (and which may be shown on your customer account statements).

SECONDARY MARKET PRICES OF THE NOTES WILL LIKELY BE LOWER THAN THE ORIGINAL ISSUE PRICE OF THE NOTES —

Any secondary market prices of the notes will likely be lower than the original issue price of the notes because, among other things, secondary market prices take into account our internal secondary market funding rates for structured debt issuances and, also, because secondary market prices (a) exclude selling commissions and (b) may exclude projected hedging profits, if any, and estimated hedging costs that are included in the original issue price of the notes. As a result, the price, if any, at which JPMS will

PS-5 | Structured Investments

Capped Dual Directional Buffered Return Enhanced Notes
Linked to the Lesser Performing of the S&P 500® Index and the
Russell 2000® Index

be willing to buy the notes from you in secondary market transactions, if at all, is likely to be lower than the original issue price. Any sale by you prior to the Maturity Date could result in a substantial loss to you.

SECONDARY MARKET PRICES OF THE NOTES WILL BE IMPACTED BY MANY ECONOMIC AND MARKET FACTORS —

The secondary market price of the notes during their term will be impacted by a number of economic and market factors, which may either offset or magnify each other, aside from the selling commissions, projected hedging profits, if any, estimated hedging costs and the levels of the Indices. Additionally, independent pricing vendors and/or third party broker-dealers may publish a price for the notes, which may also be reflected on customer account statements. This price may be different (higher or lower) than the price of the notes, if any, at which JPMS may be willing to purchase your notes in the secondary market. See “Risk Factors — Risks Relating to the Estimated Value and Secondary Market Prices of the Notes — Secondary market prices of the notes will be impacted by many economic and market factors” in the accompanying product supplement.

PS-6 | Structured Investments

Capped Dual Directional Buffered Return Enhanced Notes
Linked to the Lesser Performing of the S&P 500® Index and the
Russell 2000® Index

The Indices

The S&P 500[®] Index consists of stocks of 500 companies selected to provide a performance benchmark for the U.S. equity markets. For additional information about the S&P 500[®] Index, see “Equity Index Descriptions — The S&P U.S. Indices” in the accompanying underlying supplement.

The Russell 2000[®] Index consists of the middle 2,000 companies included in the Russell 3000E[™] Index and, as a result of the index calculation methodology, consists of the smallest 2,000 companies included in the Russell 3000[®] Index. The Russell 2000[®] Index is designed to track the performance of the small capitalization segment of the U.S. equity market. For additional information about the Russell 2000[®] Index, see “Equity Index Descriptions — The Russell Indices” in the accompanying underlying supplement.

Historical Information

The following graphs set forth the historical performance of each Index based on the weekly historical closing levels from January 4, 2013 through December 14, 2018. The closing level of the S&P 500[®] Index on December 14, 2018 was 2,599.95. The closing level of the Russell 2000[®] Index on December 14, 2018 was 1,410.813. We obtained the closing levels above and below from the Bloomberg Professional[®] service (“Bloomberg”), without independent verification.

The historical closing levels of each Index should not be taken as an indication of future performance, and no assurance can be given as to the closing level of either Index on the Pricing Date or the Observation Date. There can be no assurance that the performance of the Indices will result in the return of any of your principal amount in excess of \$200.00 per \$1,000 principal amount note, subject to the credit risks of JPMorgan Financial and JPMorgan Chase & Co.

PS-7 | Structured Investments

Capped Dual Directional Buffered Return Enhanced Notes
Linked to the Lesser Performing of the S&P 500[®] Index and the
Russell 2000[®] Index

Tax Treatment

You should review carefully the section entitled “Material U.S. Federal Income Tax Consequences” in the accompanying product supplement no. 4-I. The following discussion, when read in combination with that section, constitutes the full opinion of our special tax counsel, Davis Polk & Wardwell LLP, regarding the material U.S. federal income tax consequences of owning and disposing of notes.

Based on current market conditions, in the opinion of our special tax counsel it is reasonable to treat the notes as “open transactions” that are not debt instruments for U.S. federal income tax purposes, as more fully described in “Material U.S. Federal Income Tax Consequences — Tax Consequences to U.S. Holders — Notes Treated as Open Transactions That Are Not Debt Instruments” in the accompanying product supplement. Assuming this treatment is respected, the gain or loss on your notes should be treated as long-term capital gain or loss if you hold your notes for more than a year, whether or not you are an initial purchaser of notes at the issue price. However, the IRS or a court may not respect this treatment, in which case the timing and character of any income or loss on the notes could be materially and adversely affected. In addition, in 2007 Treasury and the IRS released a notice requesting comments on the U.S. federal income tax treatment of “prepaid forward contracts” and similar instruments. The notice focuses in particular on whether to require investors in these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; the relevance of factors such as the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by non-U.S. investors should be subject to withholding tax; and whether these instruments are or should be subject to the “constructive ownership” regime, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose a notional interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the notes, possibly with retroactive effect. You should consult your tax adviser regarding the U.S. federal income tax consequences of an investment in the notes, including possible alternative treatments and the issues presented by this notice.

Section 871(m) of the Code and Treasury regulations promulgated thereunder (“Section 871(m)”) generally impose a 30% withholding tax (unless an income tax treaty applies) on dividend equivalents paid or deemed paid to Non-U.S. Holders with respect to certain financial instruments linked to U.S. equities or indices that include U.S. equities. Section 871(m) provides certain exceptions to this withholding regime, including for instruments linked to certain broad-based indices that meet requirements set forth in the applicable Treasury regulations (such as an index, a “Qualified Index”). Additionally, a recent IRS notice excludes from the scope of Section 871(m) instruments issued prior to January 1, 2021 that do not have a delta of one with respect to underlying securities that could pay U.S.-source dividends for U.S. federal income tax purposes (each an “Underlying Security”). Based on certain determinations made by us, we expect that Section 871(m) will not apply to the notes with regard to Non-U.S. Holders. Our determination is not binding on the IRS, and the IRS may disagree with this determination. Section 871(m) is complex and its application may depend on your particular circumstances, including whether you enter into other transactions with respect to an Underlying Security. If necessary, further information regarding the potential application of Section 871(m) will be provided in the pricing supplement for the notes. You should consult your tax adviser regarding the potential application of Section 871(m) to the notes.

Withholding under legislation commonly referred to as “FATCA” may (if the notes are recharacterized as debt instruments) apply to amounts treated as interest paid with respect to the notes, as well as to payments of gross proceeds of a taxable disposition, including redemption at maturity, of a note. However, under a 2015 IRS notice, this regime will not apply to payments of gross proceeds (other than any amount treated as interest) with respect to dispositions occurring before January 1, 2019, and under recently proposed regulations (the preamble to which specifies that taxpayers are permitted to rely on them pending finalization), no withholding will apply on payments of

gross proceeds. You should consult your tax adviser regarding the potential application of FATCA to the notes.

The Estimated Value of the Notes

The estimated value of the notes set forth on the cover of this pricing supplement is equal to the sum of the values of the following hypothetical components: (1) a fixed-income debt component with the same maturity as the notes, valued using the internal funding rate described below, and (2) the derivative or derivatives underlying the economic terms of the notes. The estimated value of the notes does not represent a minimum price at which JPMS would be willing to buy your notes in any secondary market (if any exists) at any time. The internal funding rate used in the determination of the estimated value of the notes is based on, among other things, our and our affiliates' view of the funding value of the notes as well as the higher issuance, operational and ongoing liability management costs of the notes in comparison to those costs for the conventional fixed-rate debt of JPMorgan Chase & Co. For additional information, see "Selected Risk Considerations — The Estimated Value of the Notes Is Derived by Reference to an Internal Funding Rate" in this pricing supplement.

The value of the derivative or derivatives underlying the economic terms of the notes is derived from internal pricing models of our affiliates. These models are dependent on inputs such as the traded market prices of comparable derivative instruments and on

PS-8 | Structured Investments

Capped Dual Directional Buffered Return Enhanced Notes
Linked to the Lesser Performing of the S&P 500® Index and the
Russell 2000® Index

various other inputs, some of which are market-observable, and which can include volatility, dividend rates, interest rates and other factors, as well as assumptions about future market events and/or environments. Accordingly, the estimated value of the notes is determined when the terms of the notes are set based on market conditions and other relevant factors and assumptions existing at that time.

The estimated value of the notes does not represent future values of the notes and may differ from others' estimates. Different pricing models and assumptions could provide valuations for the notes that are greater than or less than the estimated value of the notes. In addition, market conditions and other relevant factors in the future may change, and any assumptions may prove to be incorrect. On future dates, the value of the notes could change significantly based on, among other things, changes in market conditions, our or JPMorgan Chase & Co.'s creditworthiness, interest rate movements and other relevant factors, which may impact the price, if any, at which JPMS would be willing to buy notes from you in secondary market transactions.

The estimated value of the notes will be lower than the original issue price of the notes because costs associated with selling, structuring and hedging the notes are included in the original issue price of the notes. These costs include the selling commissions paid to JPMS and other affiliated or unaffiliated dealers, the projected profits, if any, that our affiliates expect to realize for assuming risks inherent in hedging our obligations under the notes and the estimated cost of hedging our obligations under the notes. Because hedging our obligations entails risk and may be influenced by market forces beyond our control, this hedging may result in a profit that is more or less than expected, or it may result in a loss. A portion of the profits, if any, realized in hedging our obligations under the notes may be allowed to other affiliated or unaffiliated dealers, and we or one or more of our affiliates will retain any remaining hedging profits. See "Selected Risk Considerations — The Estimated Value of the Notes Will Be Lower Than the Original Issue Price (Price to Public) of the Notes" in this pricing supplement.

Secondary Market Prices of the Notes

For information about factors that will impact any secondary market prices of the notes, see "Risk Factors — Risks Relating to the Estimated Value and Secondary Market Prices of the Notes — Secondary market prices of the notes will be impacted by many economic and market factors" in the accompanying product supplement. In addition, we generally expect that some of the costs included in the original issue price of the notes will be partially paid back to you in connection with any repurchases of your notes by JPMS in an amount that will decline to zero over an initial predetermined period. These costs can include projected hedging profits, if any, and, in some circumstances, estimated hedging costs and our internal secondary market funding rates for structured debt issuances. This initial predetermined time period is intended to be the shorter of six months and one-half of the stated term of the notes. The length of any such initial period reflects the structure of the notes, whether our affiliates expect to earn a profit in connection with our hedging activities, the estimated costs of hedging the notes and when these costs are incurred, as determined by our affiliates. See "Selected Risk Considerations — The Value of the Notes as Published by JPMS (and Which May Be Reflected on Customer Account Statements) May Be Higher Than the Then-Current Estimated Value of the Notes for a Limited Time Period" in this pricing supplement.

Supplemental Use of Proceeds

The notes are offered to meet investor demand for products that reflect the risk-return profile and market exposure provided by the notes. See "Hypothetical Payout Profile" and "How the Notes Work" in this pricing supplement for an illustration of the risk-return profile of the notes and "The Indices" in this pricing supplement for a description of the market exposure provided by the notes.

The original issue price of the notes is equal to the estimated value of the notes plus the selling commissions paid to JPMS and other affiliated or unaffiliated dealers, plus (minus) the projected profits (losses) that our affiliates expect to

realize for assuming risks inherent in hedging our obligations under the notes, plus the estimated cost of hedging our obligations under the notes.

Supplemental Plan of Distribution

We expect that delivery of the notes will be made against payment for the notes on or about the Original Issue Date set forth on the front cover of this pricing supplement, which will be the third business day following the Pricing Date of the notes (this settlement cycle being referred to as “T+3”). Under Rule 15c6-1 of the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in two business days, unless the parties to that trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes on any date prior to two business days before delivery will be required to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement and should consult their own advisors.

Additional Terms Specific to the Notes

You may revoke your offer to purchase the notes at any time prior to the time at which we accept such offer by notifying the applicable agent. We reserve the right to change the terms of, or reject any offer to purchase, the notes prior to their issuance. In the event of any

PS-9 | Structured Investments

Capped Dual Directional Buffered Return Enhanced Notes
Linked to the Lesser Performing of the S&P 500® Index and the
Russell 2000® Index

changes to the terms of the notes, we will notify you and you will be asked to accept such changes in connection with your purchase. You may also choose to reject such changes, in which case we may reject your offer to purchase.

You should read this pricing supplement together with the accompanying prospectus, as supplemented by the accompanying prospectus supplement relating to our Series A medium-term notes of which these notes are a part, and the more detailed information contained in the accompanying product supplement and the accompanying underlying supplement. This pricing supplement, together with the documents listed below, contains the terms of the notes and supersedes all other prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, fact sheets, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in the "Risk Factors" sections of the accompanying product supplement and the accompanying underlying supplement, as the notes involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisers before you invest in the notes.

You may access these documents on the SEC website at www.sec.gov as follows (or if such address has changed, by reviewing our filings for the relevant date on the SEC website):

Product supplement no. 4-I dated April 5, 2018:

http://www.sec.gov/Archives/edgar/data/19617/000095010318004519/dp87528_424b2-ps4i.pdf

Underlying supplement no. 1-I dated April 5, 2018:

http://www.sec.gov/Archives/edgar/data/19617/000095010318004514/crt_dp87766-424b2.pdf

Prospectus supplement and prospectus, each dated April 5, 2018:

http://www.sec.gov/Archives/edgar/data/19617/000095010318004508/dp87767_424b2-ps.pdf

Our Central Index Key, or CIK, on the SEC website is 1665650, and JPMorgan Chase & Co.'s CIK is 19617. As used in this pricing supplement, "we," "us" and "our" refer to JPMorgan Financial.

PS-10 | Structured Investments

Capped Dual Directional Buffered Return Enhanced Notes
Linked to the Lesser Performing of the S&P 500[®] Index and the
Russell 2000[®] Index

yle="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;">

\$
1,016.8

\$
931.4

\$
862.8

Property and Casualty Insurance Reserves are estimated based on historical experience patterns and current economic trends. Actual loss experience and loss trends are likely to differ from these historical experience patterns and

economic conditions. Loss experience and loss trends emerge over several years from the dates of loss inception. The Company monitors such emerging loss trends on a quarterly basis. Changes in such estimates are included in the Consolidated Statements of Income in the period of change.

In 2017, the Company increased its property and casualty insurance reserves by \$18.9 million to recognize adverse development of loss and LAE reserves from prior accident years. Personal lines insurance loss and LAE reserves developed adversely by \$19.5 million, and commercial lines insurance loss and LAE reserves developed favorably by \$0.6 million. Personal automobile insurance loss and LAE reserves developed adversely by \$22.2 million due primarily to the emergence of loss patterns that were worse than expected for both physical damage and liability insurance for the 2016 accident year and, to a lesser extent, for liability insurance for the 2015 and 2014 accident years, partially offset by the emergence of more favorable loss patterns than expected for the 2013 and prior accident years. Homeowners insurance loss and LAE reserves developed adversely by \$1.0 million due primarily to the emergence of non-catastrophe loss patterns that were worse than expected for the 2016 accident year, and to a lesser extent, the 2013 and prior accident years, partially offset by \$3.7 million of favorable development on catastrophes primarily for the 2016 accident year and, to a lesser extent, the 2015 accident year. Other personal lines loss and LAE reserves developed favorably by \$3.7 million due primarily to the emergence of more favorable loss patterns than expected for the 2015, 2014, 2013 and prior accident years, partially offset by the emergence of loss patterns that were worse than expected for the 2016 accident year. Commercial lines insurance loss and LAE reserves included adverse

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 6. PROPERTY AND CASUALTY INSURANCE RESERVES (Continued)

development of \$0.9 million from continuing operations and favorable development of \$1.5 million from discontinued operations.

In 2016, the Company reduced its property and casualty insurance reserves by \$20.7 million to recognize favorable development of losses and LAE from prior accident years. Personal lines insurance loss and LAE reserves developed favorably by \$16.8 million, and commercial lines insurance loss and LAE reserves developed favorably by \$3.9 million. Personal automobile insurance loss and LAE reserves developed adversely by \$11.3 million due primarily to the emergence of loss patterns that were worse than expected for liability insurance for the 2015 and 2014 accident years and, to a lesser extent, the 2013 and 2012 accident years. Homeowners insurance loss and LAE reserves developed favorably by \$20.0 million due primarily to \$16.8 million of favorable development on catastrophes primarily for the 2015 accident year and, to a lesser extent, the 2014 accident year. Other personal lines loss and LAE reserves developed favorably by \$8.1 million due primarily to the emergence of more favorable loss patterns than expected for the 2015, 2014, 2013 and 2012 accident years. Commercial lines insurance loss and LAE reserves included adverse development of \$2.4 million from continuing operations and favorable development of \$6.3 million from discontinued operations.

In 2015, the Company reduced its property and casualty insurance reserves by \$20.1 million to recognize favorable development of losses and LAE from prior accident years, including the impact of adverse development of \$7.7 million, net of estimated indemnification recoveries, related to Alliance United for periods prior to the date of its acquisition. Personal lines insurance loss and LAE reserves developed favorably by \$13.3 million and commercial lines insurance loss and LAE reserves developed favorably by \$6.8 million. Personal automobile insurance loss and LAE reserves developed favorably by \$1.8 million, net of the adverse development related to Alliance United, homeowners insurance loss and LAE reserves developed favorably by \$10.8 million, and other personal lines loss and LAE reserves developed favorably by \$0.7 million. Excluding the adverse development related to Alliance United for periods prior to the date of its acquisition, personal lines insurance losses and LAE reserves developed favorably by \$21.0 million due primarily to the emergence of more favorable loss patterns than expected for the 2013, 2012 and 2011 accident years. Commercial lines insurance loss and LAE reserves included adverse development of \$1.8 million from continuing operations and favorable development of \$8.6 million from discontinued operations.

The Company cannot predict whether loss and LAE reserves will develop favorably or unfavorably from the amounts reported in the Consolidated Financial Statements. The Company believes that any such development will not have a material effect on the Company's consolidated financial position, but could have a material effect on the Company's consolidated financial results for a given period.

Reinsurance and indemnification recoverables on property and casualty insurance reserves were \$53.1 million and \$50.2 million at December 31, 2017 and 2016, respectively. These recoverables are concentrated with several reinsurers, the vast majority of which are highly rated by one or more of the principal investor and/or insurance company rating agencies. While most of these recoverables were unsecured at December 31, 2017 and 2016, the agreements with the reinsurers generally provide for some form of collateralization upon the occurrence of certain events.

NOTE 7. DEBT

The Company designates debt obligations as either short-term or long-term based on maturity date at issuance. Total amortized cost of Long-term Debt, Current and Non-current, outstanding at December 31, 2017 and 2016 was:

DOLLARS IN MILLIONS	2017	2016
Senior Notes:		
6.00% Senior Notes due May 15, 2017	\$—	\$359.8
4.35% Senior Notes due February 15, 2025	448.1	247.7
7.375% Subordinated Debentures due February 27, 2054	144.2	144.1
Total Long-term Debt, Current and Non-current, Outstanding	\$592.3	\$751.6

There were no outstanding borrowings at either December 31, 2017 or December 31, 2016 under Kemper's \$225.0 million, unsecured, revolving credit agreement which expires June 2, 2020.

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 7. DEBT (Continued)

Kemper's subsidiaries, Trinity Universal Insurance Company ("Trinity") and United Insurance Company of America ("United Insurance"), are members of the Federal Home Loan Bank ("FHLB") of Dallas and Chicago, respectively. There were no advances from the FHLB of Dallas or Chicago outstanding at either December 31, 2017 or December 31, 2016.

The Company has \$450.0 million of 4.35% senior notes due February 15, 2025 (the "2025 Senior Notes") outstanding as of December 31, 2017. The Company initially issued \$250 million of the 2025 Senior Notes in February of 2015, with proceeds from the issuance of \$247.3 million, net of discount and transaction costs, for an effective yield of 4.49%.

Kemper used the net proceeds from the sale, together with available cash, to redeem in full the \$250.0 million outstanding principal amount of its 6.00% senior notes due November 30, 2015. Kemper recognized a loss of \$9.1 million before income taxes in 2015 from the early redemption of these senior notes.

In June of 2017, Kemper issued an additional \$200 million of the 2025 Senior Notes. The proceeds of the additional issuance were \$200.2 million, net of discount and transaction costs, for an effective yield of 4.16%. The additional notes are fungible with the initial notes issued in 2015, and together are treated as part of a single series for all purposes under the indenture governing the 2025 Senior Notes. Kemper used the net proceeds from the additional issuance for general corporate purposes. The 2025 Senior Notes are unsecured and may be redeemed in whole at any time or in part from time to time at Kemper's option at specified redemption prices.

During the fourth quarter of 2016, in anticipation of a debt issuance in 2017 and for risk management purposes, the Company entered into a derivative transaction to hedge the risk of changes in the debt cash flows attributable to changes in the benchmark U.S. Treasury interest rate during the period leading up to the probable debt issuance ("Treasury Lock"). The Treasury Lock was formally designated as a cash flow hedge at inception and qualified for hedge accounting treatment. In the second quarter of 2017, the Company de-designated a portion of the cash flow hedge because the anticipated principal issuance was less than the notional amount of the Treasury Lock and recorded a pre-tax charge of \$1.1 million in Other Expenses. The effective portion of the loss on the derivative instrument upon discontinuance was \$4.5 million before taxes, and is reported as a component of Accumulated Other Comprehensive Income. Beginning with the additional issuance of the 2025 Senior Notes described in the preceding paragraph, such loss is being amortized into earnings and reported in Interest Expense in the same periods that the hedged items affect earnings. Amortization, reported in Interest Expense, was \$0.2 million for the year ended December 31, 2017. The Company expects to reclassify \$0.4 million of net losses on derivative instruments from AOCI to earnings for the twelve months ended December 31, 2018 as interest expense on the debt is recognized. The Treasury Lock was in a gain position of \$1.6 million at December 31, 2016 and, accordingly, such gain was included in Other Assets in the Consolidated Balance Sheet at such date.

Interest Expense, including facility fees, accretion of discount and amortization of issuance costs, was \$34.9 million, \$44.4 million and \$46.5 million for the years ended December 31, 2017, 2016 and 2015, respectively. Interest paid, including facility fees, was \$34.7 million, \$44.2 million and \$44.1 million for the years ended December 31, 2017, 2016 and 2015, respectively.

NOTE 8. LEASES

The Company leases certain office space under non-cancelable operating leases, with initial terms typically ranging from one to ten years, along with options that permit renewals for additional periods. The Company also leases certain equipment under non-cancelable operating leases, with initial terms typically ranging from one to five years.

Minimum rent is expensed on a straight-line basis over the term of the lease.

Net rental expense for operating leases for the years ended December 31, 2017, 2016 and 2015 was:

DOLLARS IN MILLIONS	2017	2016	2015
Minimum Rental Expense	\$20.5	\$21.2	\$20.7
Less Sublease Rental Income	(1.6)	(1.6)	(1.7)
Net Rental Expense	\$18.9	\$19.6	\$19.0

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 8. LEASES (Continued)

Future minimum lease payments under capital and operating leases at December 31, 2017 were:

DOLLARS IN MILLIONS	Capital Operating	
	Leases	Leases
2018	\$ 0.1	\$ 15.3
2019	—	12.8
2020	—	10.6
2021	—	8.7
2022	—	7.1
2023 and Thereafter	—	9.0
Total Future Payments	\$ 0.1	\$ 63.5
Less Imputed Interest	—	
Present Value of Minimum Capital Lease Payments	\$ 0.1	

The total of minimum rentals to be received in the future under non-cancelable subleases was \$0.4 million at December 31, 2017.

NOTE 9. SHAREHOLDERS' EQUITY

Kemper is authorized to issue 20 million shares of \$0.10 par value preferred stock and 100 million shares of \$0.10 par value common stock. No preferred shares were issued or outstanding at December 31, 2017 and 2016. There were 51,462,405 shares and 51,270,940 shares of common stock outstanding at December 31, 2017 and 2016, respectively. There were no shares of outstanding common stock at December 31, 2017, that had been issued subject to vesting or other requirements, in connection with the Company's long-term equity compensation plans, compared to 16,000 shares at December 31, 2016. See Note 10, "Long-Term Equity-based Compensation," to the Consolidated Financial Statements for a discussion of the restrictions and vesting provisions.

Kemper did not repurchase any of its common stock in open market transactions in 2017. Kemper repurchased and retired 0.1 million shares of its common stock in open market transactions at an aggregate cost of \$3.8 million in 2016. Kemper repurchased and retired 1.2 million shares of its common stock in open market transactions at an aggregate cost of \$43.5 million in 2015.

Various state insurance laws restrict the amount that an insurance subsidiary may pay in the form of dividends, loans or advances without the prior approval of regulatory authorities. Also, that portion of an insurance subsidiary's net equity which results from differences between statutory insurance accounting practices and GAAP would not be available for cash dividends, loans or advances. Kemper's insurance subsidiaries paid dividends of \$108.1 million to Kemper in 2017. In 2018, Kemper's insurance subsidiaries would be able to pay \$201 million in dividends to Kemper without prior regulatory approval. Kemper's insurance subsidiaries had net assets of \$2.4 billion, determined in accordance with GAAP, that were restricted from payment to Kemper without prior regulatory approval at December 31, 2017.

Kemper's insurance subsidiaries are required to file financial statements prepared on the basis of statutory insurance accounting practices, a comprehensive basis of accounting other than GAAP. Statutory capital and surplus for the Company's life and health insurance subsidiaries was \$414.3 million and \$403.7 million at December 31, 2017 and 2016, respectively. Statutory net income for the Company's life and health insurance subsidiaries was \$84.1 million, \$29.7 million and \$62.8 million for the years ended December 31, 2017, 2016 and 2015, respectively. Statutory capital and surplus for the Company's property and casualty insurance subsidiaries was \$855.3 million and \$928.9 million at December 31, 2017 and 2016, respectively. Statutory net income for the Company's property and casualty insurance subsidiaries was \$56.9 million, \$1.4 million and \$58.9 million for the years ended December 31, 2017, 2016 and 2015, respectively. Statutory capital and surplus and statutory net income exclude parent company operations. Kemper's insurance subsidiaries are also required to hold minimum levels of statutory capital and surplus to satisfy regulatory requirements. The minimum statutory capital and surplus, or company action level RBC, necessary to

satisfy regulatory requirements for the Company's life and health insurance subsidiaries collectively was \$120.9 million at December 31, 2017. The minimum statutory capital and surplus necessary to satisfy regulatory requirements for the Company's property and casualty insurance subsidiaries collectively was \$340.5 million at December 31, 2017. Company action level RBC is the level at which a company is required to file a corrective action plan with its regulators and is equal to 200% of the authorized control level RBC.

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 9. SHAREHOLDERS' EQUITY (Continued)

In 2017, Kemper paid dividends of \$49.5 million to its shareholders. Except for certain financial covenants under Kemper's credit agreement or during any period in which Kemper elects to defer interest payments, there are no restrictions on Kemper's ability to pay dividends to its shareholders. Certain financial covenants, namely minimum net worth and a maximum debt to total capitalization ratio, under Kemper's credit agreement could limit the amount of dividends that Kemper may pay to shareholders at December 31, 2017. Kemper had the ability to pay without restrictions \$326 million in dividends to its shareholders and still be in compliance with all financial covenants under its credit agreement at December 31, 2017.

NOTE 10. LONG-TERM EQUITY-BASED COMPENSATION

On May 4, 2011, Kemper's shareholders approved the 2011 Omnibus Equity Plan ("Omnibus Plan"). The Omnibus Plan replaced the Company's previous employee stock option plans, director stock option plan and restricted stock plan (collectively, the "Prior Plans"). Awards previously granted under the Prior Plans remain outstanding in accordance with their original terms. Beginning May 4, 2011, equity-based compensation awards may only be granted under the Omnibus Plan. A maximum number of 10,000,000 shares of Kemper common stock may be issued under the Omnibus Plan (the "Share Authorization"). As of December 31, 2017, there were 6,338,224 common shares available for future grants under the Omnibus Plan, of which 677,949 shares were reserved for future grants based on the performance results under the terms of outstanding performance-based stock unit awards.

The design of the Omnibus Plan provides for fungible use of shares to determine the number of shares available for future grants, with a fungible conversion factor of three to one, such that the Share Authorization will be reduced at two different rates, depending on the type of award granted. Each share of Kemper common stock issuable upon the exercise of stock options or stock appreciation rights will reduce the number of shares available for future grant under the Share Authorization by one share, while each share of Kemper common stock issued pursuant to "full value awards" will reduce the number of shares available for future grant under the Share Authorization by three shares. "Full value awards" are awards, other than stock options or stock appreciation rights, that are settled by the issuance of shares of Kemper common stock and include time-based restricted stock awards and time-based restricted stock units (collectively "RSUs"), performance-based restricted stock units ("PSUs") and deferred stock units ("DSUs"). Outstanding equity-based compensation awards at December 31, 2017 consisted of tandem stock option and stock appreciation rights ("Tandem Awards"), RSUs, PSUs and DSUs. RSUs, PSUs and DSUs give the recipient the right to receive one share of Kemper common stock for each RSU, PSU or DSU issued. Recipients of RSUs, PSUs and DSUs receive full dividend equivalents on the same basis as all other outstanding shares of Kemper common stock, but do not receive voting rights until such shares are issued. Except as described below for equity-based compensation awards granted to each member of the Board of Directors who is not employed by the Company ("Non-employee Directors"), all outstanding awards are subject to forfeiture until certain restrictions have lapsed.

For awards subject to a performance condition, the Company recognizes compensation expense based upon the probable outcome of the performance condition, which on the grant date reflects an estimate of attaining 100% of the performance units granted. The estimate is revised if the actual number of PSUs expected to vest is likely to differ from the previous estimate. Compensation expense for awards is recognized on a straight-line basis over the requisite service period. For equity-based compensation awards with a graded vesting schedule, the Company recognizes compensation expense on a straight-line basis over the requisite service period for each separately-vesting portion of the awards as if each award were, in substance, multiple awards. Compensation expense is recognized only for those awards expected to vest, with forfeitures estimated at the date of grant based on the Company's historical experience and future expectations. Equity-based compensation expense was \$9.4 million, \$4.7 million and \$6.5 million for the years ended December 31, 2017, 2016 and 2015, respectively. Total unamortized compensation expense related to nonvested awards at December 31, 2017 was \$9.4 million, which is expected to be recognized over a weighted-average period of 1.4 years.

The Compensation Committee of the Board of Directors, or the Board's authorized designee, has sole discretion to determine the persons to whom awards under the Omnibus Plan are granted, and the material terms of the awards. For Tandem Awards, material terms include the number of shares covered by such awards and the exercise price, vesting and expiration dates of such awards. Tandem Awards are non-transferable. The exercise price of Tandem Awards is the fair value of Kemper's common stock on the date of grant. Tandem Awards and RSU awards granted to employees generally vest in four equal annual installments over a period of 3.5 years, with the Tandem Awards expiring ten years from the date of grant. Employee PSU awards generally vest over a period of three years, subject to performance results and other restrictions.

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 10. LONG-TERM EQUITY-BASED COMPENSATION (Continued)

Under the Non-employee Director compensation programs in effect for 2017 and 2016, each non-employee director received an annual DSU award covering shares of Kemper common stock with an aggregate grant date fair value of \$110,000 and \$75,000, respectively, at the conclusion of each annual shareholder meeting. Under the Non-employee Director compensation programs in effect for 2015, annual awards to each Non-employee Director included 500 DSUs and stock options, as described below. The DSUs granted to Non-employee Directors are fully vested on the date of grant. Conversion of the DSUs into shares of Kemper's common stock is deferred until the date a director's board service terminates.

In addition to the annual DSU awards under the Non-employee Director compensation programs in effect for 2015, each Non-employee Director received an initial option award to purchase 4,000 shares of Kemper common stock immediately upon becoming a director, and in addition, received an annual option award to purchase 4,000 shares of common stock on the date of each annual meeting of Kemper's shareholders. Grants of such option awards were fully vested and exercisable on the date of grant at an exercise price equal to the fair value of Kemper's common stock on the date of grant and expire ten years from the date of grant.

The Company uses the Black-Scholes option pricing model to estimate the fair value of each Tandem Award on the date of grant. The expected terms of Tandem Awards are developed by considering the Company's historical Tandem Award exercise experience, demographic profiles, historical share retention practices of employees and assumptions about their propensity for early exercise in the future. Expected volatility is estimated using weekly historical volatility. The Company believes that historical volatility is currently the best estimate of expected volatility. The dividend yield in 2017, 2016 and 2015 was calculated by taking the natural logarithm of the annualized yield divided by the Kemper common stock price on the date of grant. The risk-free interest rate was the yield on the grant date of U.S. Treasury zero coupon issues with a maturity comparable to the expected term of the option.

The assumptions used in the Black-Scholes pricing model for Tandem Awards granted during the years ended December 31, 2017, 2016 and 2015 are presented below.

	2017	2016	2015
RANGE OF VALUATION ASSUMPTIONS			
Expected Volatility	26.17% - 30.39%	25.85% - 42.19%	21.31% - 41.65%
Risk-free Interest Rate	1.59 - 2.25	0.77 - 2.01	1.08 - 1.96
Expected Dividend Yield	1.39 - 2.43	2.22 - 3.41	2.37 - 2.62
WEIGHTED-AVERAGE EXPECTED LIFE IN YEARS			
Employee Grants	4 - 6.5	1 - 6.5	4 - 7
Director Grants	N/A	N/A	5.5

Tandem Award activity for the year ended December 31, 2017 is presented below.

	Shares Subject to Awards	Weighted-average Exercise Price Per Share (\$)	Weighted-average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (\$ In Millions)
Outstanding at Beginning of the Year	1,306,123	\$ 36.35		
Granted	444,339	43.72		
Exercised	(377,811)	35.60		
Forfeited or Expired	(360,372)	43.14		
Outstanding at December 31, 2017	1,012,279	37.45	7.85	\$ 31.8
Vested and Expected to Vest at December 31, 2017	959,899	\$ 37.40	7.81	\$ 30.2
Exercisable at December 31, 2017	470,946	\$ 35.49	6.92	\$ 15.7

The weighted-average grant-date fair values of Tandem Awards granted during 2017, 2016 and 2015 were \$8.89, \$5.17 and \$7.85, respectively. Total intrinsic value of Tandem Awards exercised was \$4.9 million, \$2.0 million and \$4.6 million for the years ended December 31, 2017, 2016 and 2015, respectively. Cash received from exercises of Tandem Awards was \$4.0 million, \$3.5 million and \$3.9 million for the years ended December 31, 2017, 2016 and 2015, respectively. Total tax benefit realized for tax deductions from exercises of Tandem Awards was \$1.7 million, \$0.7 million and \$1.6 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 10. LONG-TERM EQUITY-BASED COMPENSATION (Continued)

Information pertaining to Tandem Awards outstanding at December 31, 2017 is presented below.

Range of Exercise Prices (\$)	Outstanding			Exercisable	
	Shares Subject to Awards	Weighted-average Exercise Price Per Share (\$)	Weighted-average Remaining Contractual Life (in Years)	Shares Subject to Awards	Weighted-average Exercise Price Per Share (\$)
\$15.00-\$20.00	4,000	\$ 16.48	1.35	4,000	\$ 16.48
20.01 -25.00	2,000	22.33	1.94	2,000	22.33
25.01 -30.00	205,469	27.82	7.36	108,813	27.92
30.01 -35.00	124,127	31.84	6.90	83,141	32.03
35.01 -40.00	198,515	37.40	7.03	124,428	37.20
40.01 -45.00	463,637	42.58	8.70	148,564	42.24
45.01 -50.00	—	—	0.00	—	—
50.01 -55.00	734	54.50	9.76	—	—
55.01 -60.00	—	—	0.00	—	—
60.01 -65.00	6,221	64.30	9.84	—	—
65.01 70.00	7,576	68.65	9.92	—	—
15.00 -70.00	1,012,279	37.45	7.85	470,946	35.49

The grant-date fair values of RSUs, both time-based restricted stock awards and time-based restricted stock units, are determined using the closing price of Kemper common stock on the date of grant. Activity related to nonvested RSUs for the year ended December 31, 2017 is presented below.

	Time-based Restricted Stock Awards		Time-based Restricted Stock Unit Awards	
	Number of Shares	Weighted-average Grant-date Fair Value Per Share	Number of Restricted Stock Units	Weighted-average Grant-date Fair Value Per Unit
Nonvested Balance at Beginning of the Year	16,000	\$ 34.69	158,361	\$ 33.56
Granted	—	—	84,331	44.70
Vested	(14,000)	34.13	(57,016)	33.65
Forfeited	(2,000)	38.59	(55,429)	34.46
Nonvested Balance at December 31, 2017	—	\$ —	130,247	\$ 40.34

The initial number of PSUs awarded to each participant represents the number of Kemper common shares that would vest and be issued if the performance level attained were to be at the “target” performance level. For performance above the target level, each participant would receive a grant of additional shares of stock up to a maximum of 100% of the initial number of PSUs awarded to the participant. The final payout of these awards, and any forfeitures of PSUs for performance below the “target” performance level, will be determined based on the Company’s performance. If, at the end of the applicable performance period, the Company’s performance:

• exceeds the “target” performance level, all of the PSUs will vest and additional shares of stock will be issued to the award recipient;

• is below the “target” performance level, but at or above a “minimum” performance level, only a portion of the PSUs originally issued to the award recipient will vest; or

is below a “minimum” performance level, none of the PSUs originally issued to the award recipient will vest.

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 10. LONG-TERM EQUITY-BASED COMPENSATION (Continued)

Activity related to nonvested PSU awards for the year ended December 31, 2017 is presented below.

	PSU Awards	
	Number of PSUs	Weighted- average Grant-date Fair Value Per PSU
Nonvested Balance at Beginning of the Year	227,584	\$ 34.55
Granted	100,620	44.32
Forfeited	(102,221)	38.96
Nonvested Balance at December 31, 2017	225,983	\$ 36.90

The number of additional shares that would be granted if the Company were to meet or exceed the maximum performance levels related to the outstanding PSU awards for the 2017, 2016 and 2015 three-year performance periods was 84,383 common shares, 107,638 common shares and 33,962 common shares, respectively, (as “full value awards,” the equivalent of 253,149 shares, 322,914 shares, and 101,886 shares, respectively, under the Share Authorization) at December 31, 2017. For the 2014 and 2013 three-year performance periods, the Company’s performance level was below the minimum performance level, and all of the related 43,207 shares and 51,400 shares, respectively, of PSUs were forfeited on February 4, 2017 and February 4, 2016, the three-year anniversary of their grant date.

The grant date fair values of the PSU awards with a market performance condition are determined using the Monte Carlo simulation method. The Monte Carlo simulation model produces a risk-neutral simulation of the daily returns on the common stock of Kemper and each of the other companies included in the peer group. Returns generated by the simulation depend on the risk-free interest rate used and the volatilities of, and the correlation between, these stocks. The model simulates stock prices and dividend payouts to the end of the three-year performance period. Total shareholder returns are generated for each of these stocks based on the simulated prices and dividend payouts. The total shareholder returns are then ranked, and Kemper’s simulated ranking is converted to a payout percentage based on the terms of the PSU awards. The payout percentage is applied to the simulated stock price at the end of the performance period, reinvested dividends are added back, and the total is discounted to the valuation date at the risk-free rate. This process is repeated approximately ten thousand times, and the grant date fair value is equal to the average of the results from these trials.

Fifty percent of the PSU awards granted to employees and officers in 2017 and 2016 are measured using a market performance condition. All of the PSU awards granted to employees and officers in 2015 are measured using a market performance condition. Fair value for these awards was estimated using the Monte Carlo simulation method described above. Final payout for these awards, and any forfeitures of units for performance below the “target” performance level, will be based on Kemper’s total shareholder return, relative to a peer group comprised of all the companies in the S&P Supercomposite Insurance Index, over a three-year performance period. The three-year performance periods for the 2017, 2016 and 2015 awards end on January 31, 2020, February 28, 2019, and December 31, 2017, respectively. Compensation cost for these awards is recognized ratably over the requisite service period. In the event that the market performance condition is not satisfied, previously recognized compensation cost would not reverse, but it would reverse if the requisite service period is not met.

Fifty percent of the PSU awards granted to employees and officers in 2017 and 2016 are measured solely using a Company-specific metric. Final payout for these awards, and any forfeitures of shares for performance below the “target” performance level, will be determined based on Kemper’s adjusted return on equity over a three-year performance period. The three-year performance periods for the 2017 and 2016 awards end on December 31, 2019 and December 31, 2018, respectively. Fair value for these awards was determined using the closing price of Kemper

common stock on the date of grant. Accruals of compensation cost for these awards are estimated based on the probable outcome of the performance condition.

The total fair value of RSUs and PSUs that vested during the year ended December 31, 2017 was \$3.2 million. The tax benefits for tax deductions realized from such awards was \$1.1 million. The total fair value of RSUs and PSUs that vested during the year ended December 31, 2016 was \$1.3 million. The tax benefits for tax deductions realized from such awards was \$0.5 million. The total fair value of RSUs and PSUs that vested during the year ended December 31, 2015 was \$1.4 million. The tax benefits for tax deductions realized from such awards was \$0.5 million.

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 10. LONG-TERM EQUITY-BASED COMPENSATION (Continued)

The grant-date fair values of DSU awards granted to Non-employee Directors are determined using the closing price of Kemper common stock on the date of grant. The total fair value of DSUs that vested during the years ended December 31, 2017, 2016 and 2015 was \$0.9 million, \$0.5 million and \$0.1 million, respectively.

Activity related to DSU awards for the year ended December 31, 2017 is presented below.

	Number of DSUs	Weighted- average Grant-date Fair Value Per DSU
Vested Balance at Beginning of the Year	21,520	\$ 32.68
Granted and Vested	23,040	38.20
Vested Balance at December 31, 2017	44,560	\$ 35.54

NOTE 11. INCOME FROM CONTINUING OPERATIONS PER UNRESTRICTED SHARE

The Company's awards of restricted stock contain rights to receive non-forfeitable dividends and participate in the undistributed earnings with common shareholders. The Company's awards of RSUs, PSUs and DSUs contain rights to receive non-forfeitable dividend equivalents and participate in the undistributed earnings with common shareholders. Accordingly, the Company is required to apply the two-class method of computing basic and diluted earnings per share. A reconciliation of the numerator and denominator used in the calculation of Basic Income from Continuing Operations Per Unrestricted Share and Diluted Income from Continuing Operations Per Unrestricted Share for the years ended December 31, 2017, 2016 and 2015 is presented below.

	2017	2016	2015
DOLLARS IN MILLIONS			
Income from Continuing Operations	\$ 119.9	\$ 12.7	\$ 80.2
Less Income (Loss) from Continuing Operations Attributed to Participating Awards	0.8	(0.2)	0.4
Income from Continuing Operations Attributed to Unrestricted Shares	119.1	12.9	79.8
Dilutive Effect on Income of Equity-based Compensation Equivalent Shares	—	—	—
Diluted Income from Continuing Operations Attributed to Unrestricted Shares	\$ 119.1	\$ 12.9	\$ 79.8
SHARES IN THOUSANDS			
Weighted-average Unrestricted Shares Outstanding	51,345.6	51,156.1	51,606.9
Equity-based Compensation Equivalent Shares	232.3	58.6	76.6
Weighted-average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution	51,577.9	51,214.7	51,683.5
PER UNRESTRICTED SHARE IN WHOLE DOLLARS			
Basic Income from Continuing Operations Per Unrestricted Share	\$ 2.32	\$ 0.25	\$ 1.55
Diluted Income from Continuing Operations Per Unrestricted Share	\$ 2.31	\$ 0.25	\$ 1.55
The number of shares of Kemper common stock that were excluded from the calculations of Equity-based Compensation Equivalent Shares and Weighted-average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution for the years ended December 31, 2017, 2016 and 2015 because the exercise prices for the options exceeded the average market price is presented below.			
SHARES IN THOUSANDS			
Equity-based Compensation Equivalent Shares	346.6	959.9	959.7
Weighted-average Unrestricted Shares and Equivalent Shares Outstanding Assuming Dilution	346.6	959.9	959.7

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 12. OTHER COMPREHENSIVE INCOME (LOSS) AND ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of Other Comprehensive Income (Loss) Before Income Taxes for the years ended December 31, 2017, 2016 and 2015 were:

DOLLARS IN MILLIONS	2017	2016	2015
Other Comprehensive Income (Loss) Before Income Taxes:			
Unrealized Holding Gains (Losses) Arising During the Year Before Reclassification Adjustment	\$119.1	\$(2.4)	\$(151.9)
Reclassification Adjustment for Amounts Included in Net Income	(35.3)	0.2	(25.4)
Unrealized Holding Gains (Losses)	83.8	(2.2)	(177.3)
Foreign Currency Translation Adjustments Arising During the Year Before Reclassification Adjustment	1.7	(0.3)	(1.4)
Reclassification Adjustment for Amounts Included in Net Income	—	—	—
Foreign Currency Translation Adjustments	1.7	(0.3)	(1.4)
Net Unrecognized Postretirement Benefit Costs Arising During the Year	3.9	14.2	3.0
Reclassification Adjustments for Amounts Included in Net Income:			
Curtailed Cost Recognized	—	1.0	—
Amortization of Net Unrecognized Postretirement Benefit Costs	(0.6)	5.3	23.1
Total Reclassification Adjustments for Amounts Included in Net Income	(0.6)	6.3	23.1
Net Unrecognized Postretirement Benefit Costs	3.3	20.5	26.1
Gains (Losses) on Cash Flow Hedges During the Year Before Reclassification Adjustment	(8.0)	1.6	—
Reclassification Adjustment for Amounts Included in Net Income	1.3	—	—
Gain (Loss) on Cash Flow Hedges	(6.7)	1.6	—
Other Comprehensive Income (Loss) Before Income Taxes	\$82.1	\$19.6	\$(152.6)

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 12. OTHER COMPREHENSIVE INCOME (LOSS) AND ACCUMULATED OTHER COMPREHENSIVE INCOME (Continued)

The components of Other Comprehensive Income Tax Benefit (Expense) for the years ended December 31, 2017, 2016 and 2015 were:

DOLLARS IN MILLIONS	2017	2016	2015
Income Tax Benefit (Expense):			
Unrealized Holding Gains and Losses Arising During the Year Before Reclassification Adjustment	\$(38.2)	\$1.0	\$53.9
Reclassification Adjustment for Amounts Included in Net Income	12.3	(0.1)	8.9
Unrealized Holding Gains and Losses	(25.9)	0.9	62.8
Foreign Currency Translation Adjustments Arising During the Year Before Reclassification Adjustment	(0.6)	0.1	0.5
Reclassification Adjustment for Amounts Included in Net Income	—	—	—
Foreign Currency Translation Adjustment	(0.6)	0.1	0.5
Net Unrecognized Postretirement Benefit Costs Arising During the Year	(0.8)	(5.0)	(1.1)
Reclassification Adjustments for Amounts Included in Net Income:			
Curtailed Cost Recognized	—	(0.4)	—
Amortization of Net Unrecognized Postretirement Benefit Costs	0.2	(1.9)	(8.0)
Total Reclassification Adjustments for Amounts Included in Net Income	0.2	(2.3)	(8.0)
Net Unrecognized Postretirement Benefit Costs	(0.6)	(7.3)	(9.1)
Gains and Losses on Cash Flow Hedges During the Year Before Reclassification Adjustment	2.8	(0.6)	—
Reclassification Adjustment for Amounts Included in Net Income	(0.4)	—	—
Gains and Losses on Cash Flow Hedges	2.4	(0.6)	—
Other Comprehensive Income Tax Benefit (Expense)	\$(24.7)	\$(6.9)	\$54.2

The components of AOCI at December 31, 2017 and 2016 were:

DOLLARS IN MILLIONS	2017	2016
Net Unrealized Gains on Investments, Net of Income Taxes:		
Available for Sale Fixed Maturities with Portion of OTTI Recognized in Earnings	\$0.2	\$0.1
Other Net Unrealized Gains on Investments	269.5	211.7
Foreign Currency Translation Adjustments, Net of Income Taxes	0.2	(0.9)
Net Unrecognized Postretirement Benefit Costs, Net of Income Taxes	(72.2)	(74.9)
Gain (Loss) on Cash Flow Hedges, Net of Income Taxes	(3.3)	1.0
Accumulated Other Comprehensive Income	\$194.4	\$137.0

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 12. OTHER COMPREHENSIVE INCOME (LOSS) AND ACCUMULATED OTHER COMPREHENSIVE INCOME (Continued)

Components of AOCI were reclassified to the following lines of the Consolidated Statements of Income for the years ended December 31, 2017, 2016 and 2015:

DOLLARS IN MILLIONS	2017	2016	2015
Reclassification of AOCI from Net Unrealized Gains and Losses on Available For Sale Securities to:			
Net Realized Gains on Sales of Investments	\$49.6	\$32.0	\$52.6
Net Impairment Losses Recognized in Earnings	(14.3)	(32.2)	(27.2)
Total Before Income Taxes	35.3	(0.2)	25.4
Income Tax Benefit (Expense)	(12.3)	0.1	(8.9)
Reclassification from AOCI, Net of Income Taxes	23.0	(0.1)	16.5
Reclassification of AOCI Unrecognized Postretirement Benefit Costs to:			
Interest and Other Expenses	0.6	(6.3)	(23.1)
Income Tax Benefit (Expense)	(0.2)	2.3	8.0
Reclassification from AOCI, Net of Income Taxes	0.4	(4.0)	(15.1)
Reclassification of AOCI from Loss on Cash Flow Hedges to:			
Interest and Other Expenses	(1.3)	—	—
Income Tax Benefit	0.4	—	—
Reclassification from AOCI, Net of Income Taxes	(0.9)	—	—
Total Reclassification from AOCI to Net Income	\$22.5	\$(4.1)	\$1.4

NOTE 13. INCOME FROM INVESTMENTS

Net Investment Income for the years ended December 31, 2017, 2016 and 2015 was:

DOLLARS IN MILLIONS	2017	2016	2015
Investment Income (Loss):			
Interest and Dividends on Fixed Maturities	\$246.6	\$242.7	\$236.2
Dividends on Equity Securities Excluding Alternative Investments	9.3	11.8	14.8
Alternative Investments:			
Equity Method Limited Liability Investments	24.8	7.5	19.0
Fair Value Option Investments	1.3	(1.9)	0.2
Limited Liability Investments Included in Equity Securities	28.6	22.0	17.6
Total Alternative Investments	54.7	27.6	36.8
Short-term Investments	1.6	0.5	0.4
Loans to Policyholders	21.6	21.6	21.1
Real Estate	10.7	11.8	11.9
Other	0.5	0.3	—
Total Investment Income	345.0	316.3	321.2
Investment Expenses:			
Real Estate	10.5	11.0	11.3
Other Investment Expenses	7.3	7.0	7.3
Total Investment Expenses	17.8	18.0	18.6
Net Investment Income	\$327.2	\$298.3	\$302.6

Kemper Corporation and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

NOTE 13. INCOME FROM INVESTMENTS (Continued)

Other Receivables includes accrued investment income of \$72.8 million and \$70.8 million at December 31, 2017 and 2016, respectively.

The components of Net Realized Gains on Sales of Investments for the years ended December 31, 2017, 2016 and 2015 were:

DOLLARS IN MILLIONS	2017	2016	2015
Fixed Maturities:			
Gains on Sales	\$8.4	\$17.0	\$16.1
Losses on Sales	(0.9)	(4.6)	(1.1)
Equity Securities:			
Gains on Sales	42.0	19.9	39.2
Losses on Sales	—	(0.3)	(1.6)
Real Estate:			
Gains on Sales	6.4	1.1	—
Losses on Sales	—	—	(0.2)
Other Investments:			
Gains on Other Sales	0.1	—	—
Losses on Sales	(0.1)	(0.2)	—
Net Gains (Losses) on Trading Securities	0.6	0.2	(0.3)
Net Realized Gains on Sales of Investments	\$56.5	\$33.1	\$52.1
Gross Gains on Sales	\$56.9	\$38.0	\$55.3
Gross Losses on Sales	(1.0)	(5.1)	(2.9)
Net Gains (Losses) on Trading Securities	0.6	0.2	(0.3)
Net Realized Gains on Sales of Investments	\$56.5	\$33.1	\$52.1

The components of Net Impairment Losses Recognized in Earnings reported in the Consolidated Statements of Income for the years ended December 31, 2017, 2016 and 2015 were:

DOLLARS IN MILLIONS	2017	2016	2015
Fixed Maturities	\$(12.1)	\$(26.6)	\$(11.5)
Equity Securities	(2.2)	(5.6)	(15.7)
Real Estate	—	(0.5)	—
Net Impairment Losses Recognized in Earnings	\$(14.3)	\$(32.7)	\$(27.2)

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 14. INSURANCE EXPENSES

Insurance Expenses for the years ended December 31, 2017, 2016 and 2015 were:

DOLLARS IN MILLIONS	2017	2016	2015
Commissions	\$425.6	\$399.2	\$357.6
General Expenses	194.1	209.0	241.1
Taxes, Licenses and Fees	52.8	48.8	44.2
Total Costs Incurred	672.5	657.0	642.9
Policy Acquisition Costs:			
Deferred	(351.6)	(314.9)	(270.6)
Amortized	318.3	299.3	257.4
Net Policy Acquisition Costs Deferred	(33.3)	(15.6)	(13.2)
Amortization of Insurance in Force	5.1	5.9	15.4
Insurance Expenses	\$644.3	\$647.3	\$645.1

Commissions for servicing policies are expensed as incurred, rather than deferred and amortized.

NOTE 15. INCOME TAXES

On December 22, 2017, Public Law 115-97, more commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"), was enacted. The Tax Act includes numerous changes to existing federal income tax law, including a permanent reduction in the federal corporate income tax rate from 35% to 21%, effective January 1, 2018.

Pursuant to SAB 118, the Company recorded certain provisional amounts for the estimated income tax effects of the Tax Act on deferred income taxes. The Company estimates that the reduction in the corporate income tax rate decreased its net deferred income tax liability as of December 22, 2017 by \$10.5 million. The effect of the rate change was recorded as a decrease to income tax expense in the Company's Consolidated Statement of Income for the year ended December 31, 2017. Final determination of the effects of the Tax Act on deferred income taxes requires additional information, including data from third parties, actuarial computations and other items. The Company expects to complete its determination of the effect of the Tax Act on its deferred income tax assets and liabilities pursuant to its annual income tax return filing process which is expected to be completed during the fourth quarter of 2018.

The Company had not previously provided for Federal income taxes on \$14.7 million of Mutual Savings Life's income earned prior to 1984, which was not subject to income taxes under certain conditions prior to the Tax Act. Under the Tax Act, such income is now subject to taxation. Accordingly, the Company recognized current income tax expense of \$3.1 million in the Company's Consolidated Statement of Income for the year ended December 31, 2017.

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 15. INCOME TAXES (Continued)

The tax effects of temporary differences that give rise to significant portions of the Company's Net Deferred Income Tax Assets and Deferred Income Tax Liabilities at December 31, 2017 and 2016 were:

DOLLARS IN MILLIONS	2017	2016
Deferred Income Tax Assets:		
Insurance Reserves	\$55.7	\$83.4
Unearned Premium Reserves	26.7	42.1
Tax Capitalization of Policy Acquisition Costs	41.9	70.7
Payroll and Employee Benefit Accruals	37.2	60.5
Net Operating Loss Carryforwards	31.8	52.2
Other	3.7	13.2
Total Deferred Income Tax Assets	197.0	322.1
Deferred Income Tax Liabilities:		
Investments	90.6	113.0
Deferred Policy Acquisition Costs	76.8	116.2
Life VIF and P&C Customer Relationships	6.9	13.5
Goodwill and Other Intangible Assets Acquired	22.3	37.1
Depreciable Assets	12.1	12.5
Other	3.1	4.0
Total Deferred Income Tax Liabilities	211.8	296.3
Net Deferred Income Tax Assets (Liabilities)	\$(14.8)	\$25.8

The expiration of federal net operating loss ("NOL") carryforwards and their related deferred income tax assets at December 31, 2017 is presented below by year of expiration.

DOLLARS IN MILLIONS	NOL Carry-forwards	Deferred Tax Asset
Expiring in:		
2020	\$ 7.8	\$ 1.6
2021 through 2025	30.5	6.5
2026 through 2030	29.8	6.2
2031 through 2037	83.3	17.5
Total All Years	\$ 151.4	\$ 31.8

Except for the NOL carryforwards scheduled to expire in 2031 through 2037, all of the NOL carryforwards were acquired in connection with business acquisitions made in prior years and are subject to annual usage limitations under the Internal Revenue Code. The Company expects to fully utilize these federal NOL carryforwards.

A reconciliation of the beginning and ending amount of Unrecognized Tax Benefits for the years ended December 31, 2017, 2016 and 2015 is presented below.

DOLLARS IN MILLIONS	2017	2016	2015
Liabilities for Unrecognized Tax Benefits at Beginning of Year	\$5.1	\$3.8	\$7.2
Additions for Tax Positions of Current Year	3.1	1.5	0.2
Additions for Tax Positions of Prior Years	—	—	—
Reduction for Expiration of Federal Statute of Limitations	(0.1)	(0.2)	(3.6)
Liabilities for Unrecognized Tax Benefits at End of Year	\$8.1	\$5.1	\$3.8

During March of 2017, the Internal Revenue Service commenced an examination of Kemper and its eligible subsidiaries' consolidated Federal income tax return for the years ended December 31, 2014, and 2015.

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 15. INCOME TAXES (Continued)

Unrecognized Tax Benefits at December 31, 2017, 2016 and 2015 include \$7.6 million, \$4.6 million and \$3.3 million, respectively, for tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred income tax accounting, other than for interest and penalties, the disallowance of the shorter deductibility period would not affect the effective income tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. The liability for Unrecognized Tax Benefits included accrued interest of \$0.5 million, \$0.5 million and \$0.5 million at December 31, 2017, 2016 and 2015, respectively. Net interest related to unrecognized tax benefits for the years ended December 31, 2017 and 2016 was insignificant. Tax expense includes interest benefit of \$3.3 million related to unrecognized tax benefits for the year ended December 31, 2015.

The statute of limitations related to Kemper and its eligible subsidiaries' consolidated Federal income tax returns is closed for all tax years up to and including 2013. The statute of limitations related to Kemper and its eligible subsidiaries' consolidated Federal income tax return for the tax year ended December 31, 2014 has been extended to March 15, 2019. The expiration of the statute of limitations related to the various state income tax returns that Kemper and its subsidiaries file varies by state.

The components of Income Tax Expense from Continuing Operations for the years ended December 31, 2017, 2016 and 2015 were:

DOLLARS IN MILLIONS	2017	2016	2015
Current Income Tax Benefit (Expense)	\$(23.1)	\$8.2	\$(25.7)
Deferred Income Tax Benefit (Expense)	(15.1)	2.3	2.2
(Increase) Decrease Unrecognized Tax Benefits	(3.0)	(1.3)	3.4
Income Tax Benefit (Expense)	\$(41.2)	\$9.2	\$(20.1)

Income taxes paid, net of income tax refunds received, were \$13.0 million in 2017. Income tax refunds received, net of income taxes paid, were \$0.5 million in 2016. Income taxes paid, net of income tax refunds received, were \$44.4 million 2015.

A reconciliation of the Statutory Federal Income Tax Expense and Rate to the Company's Effective Income Tax Expense and Rate from Continuing Operations for the years ended December 31, 2017, 2016 and 2015 is presented below.

DOLLARS IN MILLIONS	2017		2016		2015	
	Amount	Rate	Amount	Rate	Amount	Rate
Statutory Federal Income Tax Expense	\$(56.4)	35.0 %	\$(1.2)	35.0 %	\$(35.1)	35.0 %
Tax-exempt Income and Dividends Received Deduction	9.8	(6.0)	9.8	(279.5)	9.8	(9.7)
Unrecognized Tax Benefit (Expense)	—	—	—	—	2.1	(2.1)
Indemnification Recoveries	—	—	0.2	(6.5)	3.7	(3.6)
State Income Taxes	0.1	(0.1)	(0.6)	16.9	(0.6)	0.5
Long-term Equity Based Compensation	0.4	(0.2)	—	—	—	—
Tax Reform	7.4	(4.6)	—	—	—	—
Other, Net	(2.5)	1.5	1.0	(28.9)	—	—
Effective Income Tax Benefit (Expense) from Continuing Operations	\$(41.2)	25.6 %	\$9.2	(263.0)%	\$(20.1)	20.1 %

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 15. INCOME TAXES (Continued)

Comprehensive Income Tax Benefit (Expense) included in the Consolidated Financial Statements for the years ended December 31, 2017, 2016 and 2015 was:

DOLLARS IN MILLIONS	2017	2016	2015
Income Tax Benefit (Expense):			
Continuing Operations	\$(41.2)	\$9.2	\$(20.1)
Discontinued Operations	(0.5)	(2.2)	(3.1)
Unrealized Depreciation (Appreciation) on Securities	(25.9)	0.9	62.8
Foreign Currency Translation Adjustments on Investments	(0.6)	0.1	0.5
Tax Effects from Postretirement Benefit Plans	(0.6)	(7.3)	(9.1)
Tax Effects from Cash Flow Hedge	2.4	(0.6)	—
Tax Effects from Long-term Equity-based Compensation included in Paid-in Capital	—	(1.1)	(1.0)
Comprehensive Income Tax Benefit (Expense)	\$(66.4)	\$(1.0)	\$30.0

NOTE 16. PENSION BENEFITS

The Company sponsors a qualified defined benefit pension plan (the “Pension Plan”). The Pension Plan covers approximately 9,000 participants and beneficiaries, of which 1,600 are active employees. The Pension Plan is closed to new employees hired after January 1, 2006. The Pension Plan is generally non-contributory, but participation requires or required some employees to contribute 3% of pay, as defined, per year. Benefits for participants who are or were required to contribute to the Pension Plan are based on compensation during plan participation and the number of years of participation. Benefits for the vast majority of participants who are not required to contribute to the Pension Plan are based on years of service and final average pay, as defined. The Company funds the Pension Plan in accordance with the requirements of ERISA.

On May 12, 2016, the Company amended the Pension Plan to freeze benefit accruals, effective June 30, 2016, for substantially all of the participants under the plan. Accordingly, plan assets and liabilities were re-measured, resulting in balances in accumulated unrecognized pension loss and unamortized prior service credit prior to the freeze of \$191.2 million and \$0.3 million, respectively. In recognizing the curtailment, the Company recorded income of \$0.3 million before income taxes in the second quarter of 2016 to immediately recognize the remaining unamortized prior service credit in the Pension Plan. The curtailment reduced the accumulated unrecognized pension loss by \$23.3 million. The remaining accumulated unrecognized pension loss of \$167.9 million as of the re-measurement date is being amortized over approximately 25 years, the remaining average estimated life expectancy of participants. Prior to the amendment, the accumulated unrecognized pension loss was being amortized over approximately 5 years, the remaining average service life of active participants.

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 16. PENSION BENEFITS (Continued)

Changes in Fair Value of Plan Assets and Changes in Projected Benefit Obligation for the Pension Plan for the years ended December 31, 2017 and 2016 is presented below.

DOLLARS IN MILLIONS	2017	2016
Fair Value of Plan Assets at Beginning of Year	\$520.9	\$507.5
Actual Return on Plan Assets	86.4	29.9
Employer Contributions	—	9.0
Benefits Paid	(27.5)	(25.5)
Fair Value of Plan Assets at End of Year	579.8	520.9
Projected Benefit Obligation at Beginning of Year	593.6	597.8
Service Cost	—	4.8
Interest Cost	20.6	20.1
Benefits Paid	(27.5)	(25.5)
Curtailment	—	(23.3)
Actuarial Losses	50.5	19.7
Projected Benefit Obligation at End of Year	637.2	593.6
Funded Status—Plan Assets in Deficit of Projected Benefit Obligation	\$(57.4)	\$(72.7)
Unamortized Amount Reported in AOCI at End of Year:		
Accumulated Actuarial Loss	\$(137.2)	\$(144.7)
Prior Service Credit	—	—
Unamortized Amount Reported in AOCI at End of Year	\$(137.2)	\$(144.7)
Accumulated Benefit Obligation at End of Year	\$637.0	\$593.5

The measurement dates of the assets and liabilities at end of year presented in the preceding table under the headings, “2017” and “2016” were December 31, 2017 and December 31, 2016, respectively.

The weighted-average discount rate and rate of increase in future compensation levels used to estimate the components of the Projected Benefit Obligation for the Pension Plan at December 31, 2017 and 2016 were:

	2017	2016
Discount Rate	3.63%	4.18%
Rate of Increase in Future Compensation Levels	3.40	2.56

Weighted-average asset allocations for the Pension Plan at December 31, 2017 and 2016 by asset category were:

ASSET CATEGORY	2017	2016
Cash and Short-term Investments	2 %	2 %
Corporate Bonds and Notes	31	31
Common and Preferred Stocks	50	48
Exchange Traded Funds	1	1
Other Assets	16	18
Total	100%	100%

The investment objective of the Pension Plan is to produce current income and long-term capital growth through a combination of equity and fixed income investments which, together with appropriate employer contributions and any required employee contributions, is adequate to provide for the payment of the benefit obligations of the Pension Plan. The assets of the Pension Plan may be invested in fixed income and equity investments or any other investment vehicle or financial instrument deemed appropriate. Fixed income investments may include cash and short-term instruments, U.S. Government securities, corporate bonds, mortgages and other fixed income investments. Equity investments may include various types of stock, such as large-cap, mid-cap and small-cap stocks, and may also include investments in investment companies, collective investment funds and Kemper common stock (subject to Section 407 and other requirements of ERISA). The Pension Plan has not invested in Kemper common stock.

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 16. PENSION BENEFITS (Continued)

The trust investment committee for the Pension Plan, along with its third party fiduciary advisor, periodically reviews the performance of the Pension Plan's investments and asset allocation. Several external investment managers, one of which is Fayez Sarofim & Co. (see Note 24, "Related Parties," to the Consolidated Financial Statements), manage the equity investments of the trust for the Pension Plan. Each manager is allowed to exercise investment discretion, subject to limitations, if any, established by the trust investment committee for the Pension Plan. All other investment decisions are made by the Company, subject to general guidelines as set by the trust investment committee for the Pension Plan.

The Company determines its Expected Long Term Rate of Return on Plan Assets based primarily on the Company's expectations of future returns, with consideration to historical returns, for the Pension Plan's investments, based on target allocations of the Pension Plan's investments.

Fair value measurements for the Pension Plan's assets at December 31, 2017 are summarized below.

DOLLARS IN MILLIONS	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measured at Net Asset Value	Fair Value
Fixed Maturities:					
U.S. Government and Government Agencies and Authorities	\$ 56.7	\$ —	\$ —	\$ —	\$ 56.7
States and Political Subdivisions	—	2.2	—	—	2.2
Corporate Bonds and Notes	—	122.0	—	—	122.0
Equity Securities:					
Preferred Stocks:					
Finance, Insurance and Real Estate	—	4.9	—	—	4.9
Common Stocks:					
Manufacturing	86.8	15.3	—	—	102.1
Other Industries	99.6	4.7	—	—	104.3
Other Equity Interests:					
Collective Investment Funds	—	—	—	79.2	79.2
Exchange Traded Funds	5.1	—	—	—	5.1
Limited Liability Companies and Limited Partnerships	—	—	—	95.9	95.9
Short-term Investments	9.0	—	—	—	9.0
Receivables and Other	(1.9)	—	0.3	(1.6)
Total	\$ 255.3	\$ 149.1	\$ 0.3	\$ 175.1	\$ 579.8

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 16. PENSION BENEFITS (Continued)

Fair value measurements for the Pension Plan's assets at December 31, 2016 are summarized below.

DOLLARS IN MILLIONS	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measured at Net Asset Value	Fair Value
Fixed Maturities:					
U.S. Government and Government Agencies and Authorities	\$ 21.2	\$ 8.6	\$ —	—	\$29.8
States and Political Subdivisions	—	3.1	—	—	3.1
Corporate Bonds and Notes	—	126.4	—	—	126.4
Equity Securities:					
Preferred Stocks:					
Finance, Insurance and Real Estate	—	6.2	—	—	6.2
Common Stocks:					
Manufacturing	77.5	16.0	—	—	93.5
Other Industries	88.1	—	—	—	88.1
Other Equity Interests:					
Collective Investment Funds	—	—	—	60.7	60.7
Exchange Traded Funds	6.0	—	—	—	6.0
Limited Liability Companies and Limited Partnerships	—	—	—	93.5	93.5
Short-term Investments	11.8	—	—	—	11.8
Receivables and Other	1.4	—	0.4	—	1.8
Total	\$ 206.0	\$ 160.3	\$ 0.4	\$ 154.2	\$520.9

Additional information pertaining to the changes in the fair value of the Pension Plan's assets classified as Level 3 in the two preceding tables for the years ended December 31, 2017 and 2016 is presented below.

DOLLARS IN MILLIONS	2017	2016
Balance at Beginning of Year	\$0.4	\$0.4
Return on Plan Assets Held	—	—
Purchases, Sales and Settlements, Net	(0.1)	—
Transfers out of Level 3	—	—
Balance at End of Year	\$0.3	\$0.4

The components of Comprehensive Pension Expense (Income) for the Pension Plan for the years ended December 31, 2017, 2016 and 2015 were:

DOLLARS IN MILLIONS	2017	2016	2015
Service Cost Earned During the Year	\$—	\$4.8	\$10.5
Interest Cost on Projected Benefit Obligation	20.6	20.1	25.7
Expected Return on Plan Assets	(30.9)	(32.7)	(35.0)
Amortization of Actuarial Loss	2.6	6.6	24.4
Curtailment Gain	—	(0.3)	—
Pension Expense (Income) Recognized in Consolidated Statements of Income	(7.7)	(1.5)	25.6
Unrecognized Pension Gain Arising During the Year	(4.9)	(0.7)	(1.9)
Amortization of Accumulated Unrecognized Pension Loss	(2.6)	(6.3)	(24.4)
Comprehensive Pension Expense (Income)	\$(15.2)	\$(8.5)	\$(0.7)

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 16. PENSION BENEFITS (Continued)

The actuarial loss included in AOCI at December 31, 2017 is being amortized over approximately 24 years, the remaining average estimated life expectancy of participants. The Company estimates that Pension Expense for the Pension Plan for the year ended December 31, 2018 will include expense of \$4.2 million resulting from the amortization of the related accumulated actuarial loss included in AOCI at December 31, 2017.

Effective January 1, 2016, the Company changed its method for estimating the interest and service cost components of expense recognized for its pension and other postretirement employee benefit plans. As a result, the Company elected to use a full yield curve approach to estimate these components of benefit cost by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. See Note 2, "Summary of Accounting Policies and Accounting Changes," to the Consolidated Financial Statements for further discussion of the change. The weighted-average discount rate, service cost discount rate, interest cost discount rate, rate of increase in future compensation levels and expected long-term rate of return on plan assets used to develop the components of Pension Expense for the Pension Plan for the periods presented below were:

	Year Ended		Year Ended	
	December 31, 2017	5/13/16 to 12/31/16	1/1/16 to 5/12/16	December 31, 2015
Weighted-average Discount Rate	4.19 %	3.94 %	4.47 %	4.10 %
Service Cost Discount Rate	4.15	4.22	4.78	—
Interest Cost Discount Rate	3.52	3.18	3.69	—
Rate of Increase in Future Compensation Levels	2.56	3.15	3.15	3.31
Expected Long Term Rate of Return on Plan Assets	5.80	6.25	6.25	6.75

The Company did not contribute to the Pension Plan in 2017. On August 12, 2016, the Company made a voluntary cash contribution of \$9.0 million to the Pension Plan. The Company did not contribute to the Pension Plan in 2015. The Company does not expect that it will be required to contribute to the Pension Plan in 2018, but could make a voluntary contribution pursuant to the maximum funding limits under ERISA.

The following benefit payments (net of participant contributions), which consider expected future service of certain participants that remain eligible for a benefit accrual, as appropriate, are expected to be paid from the Pension Plan:

DOLLARS IN MILLIONS	Years Ending December 31,					
	2018	2019	2020	2021	2022	2023-2027
Estimated Pension Benefit Payments	\$28.5	\$29.8	\$30.9	\$32.0	\$33.0	\$ 174.0

The Company also sponsors a non-qualified supplemental defined benefit pension plan (the "Supplemental Plan"). As a result of the amendment to the Pension Plan, benefit accruals for all participants in the Supplemental Plan were also frozen effective June 30, 2016. Accordingly, plan liabilities for the Supplemental Plan were also re-measured in the second quarter of 2016, resulting in balances in accumulated unrecognized pension loss and unamortized prior service costs prior to the freeze of \$1.6 million and \$1.3 million, respectively. The Company recorded expense of \$1.3 million in the second quarter of 2016 to immediately recognize the remaining net unamortized prior service costs in the Supplemental Plan. The curtailment reduced the Projected Benefit Obligation by \$5.2 million at the re-measurement date. Accordingly, a curtailment gain of \$3.6 million before tax was recorded to recognize the reduction in the Projected Benefit Obligation that exceeded the accumulated unrecognized pension loss prior to the freeze.

The unfunded liability related to the Supplemental Plan was \$26.3 million and \$25.4 million at December 31, 2017 and 2016, respectively. Pension expense for the Supplemental Plan was \$0.8 million for the year ended December 31, 2017, compared to pension income of \$1.0 million and pension expense \$2.1 million for the years ended December 31, 2016, and 2015, respectively. An actuarial loss of \$1.6 million before taxes, an actuarial gain of \$4.8 million before taxes and an actuarial gain of \$1.5 million before taxes are included in Other Comprehensive Income

(Loss) for the years ended December 31, 2017, 2016 and 2015, respectively.

The Company also sponsors several defined contribution benefit plans covering most of its employees. The Company made contributions to those plans of \$10.6 million, \$8.4 million and \$7.8 million in 2017, 2016 and 2015, respectively.

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 17. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Company sponsors an other than pension postretirement employee benefit plan (“OPEB”) that provides medical, dental and/or life insurance benefits to approximately 475 retired and 200 active employees (the “OPEB Plan”). The Company has historically self-insured the benefits under the OPEB Plan. The medical plan generally provides for a limited number of years of medical insurance benefits at retirement based on the participant’s attained age at retirement and number of years of service until specified dates and generally has required participant contributions, with most contributions adjusted annually. On December 30, 2016, the Company amended the OPEB Plan and, effective December 31, 2016, will no longer offer coverage to post-65 Medicare-eligible retirees and Medicare-eligible spouses under the self-insured portion of its coverage. Rather, beginning on January 1, 2017, the OPEB Plan offers access to a private, third-party Medicare exchange and provides varying levels of a Company-determined subsidy via health reimbursement accounts to certain Medicare-eligible retirees and spouses in order to help fund a portion of the participants’ cost. Further, the amendment eliminates the requirement for such participants to contribute to the OPEB Plan. In conjunction with the amendment, the Company recorded a pre-tax reduction to its Accumulated Postretirement Benefit Obligation of \$11.0 million through Other Comprehensive Income. This prior service credit is being amortized into income over the remaining average life of the OPEB Plan’s participants. Changes in Fair Value of Plan Assets and Changes in Accumulated Postretirement Benefit Obligation for the years ended December 31, 2017 and 2016 were:

DOLLARS IN MILLIONS

	2017	2016
Fair Value of Plan Assets at Beginning of Year	\$—	\$—
Employer Contributions	0.9	3.4
Plan Participants’ Contributions	0.5	1.0
Benefits Paid	(1.4)	(4.4)
Fair Value of Plan Assets at End of Year	—	—
Accumulated Postretirement Benefit Obligation at Beginning of Year	15.1	29.6
Service Cost	0.1	0.1
Interest Cost	0.4	0.8
Plan Participants’ Contributions	0.5	1.0
Benefits Paid	(1.4)	(4.4)
Medicare Part D Subsidy Received	0.2	0.3
Plan Amendments	—	(11.0)
Actuarial Gain	(0.5)	(1.3)
Accumulated Postretirement Benefit Obligation at End of Year	14.4	15.1
Funded Status—Accumulated Postretirement Benefit Obligation in Excess of Plan Assets	\$(14.4)	\$(15.1)
Unamortized Actuarial Gain Reported in AOCI at End of Year	\$25.0	\$27.6

The measurement dates of the assets and liabilities at end of year in the preceding table under the headings “2017” and “2016” were December 31, 2017 and December 31, 2016, respectively.

The weighted-average discount rate and rate of increase in future compensation levels used to develop the components of the Accumulated Postretirement Benefit Obligation at December 31, 2017 and 2016 were:

	2017	2016
Discount Rate	3.36%	3.60%
Rate of Increase in Future Compensation Levels	2.20	2.60

The assumed health care cost trend rate used in measuring the Accumulated Postretirement Benefit Obligation at December 31, 2017 was 7.50% for 2018, gradually declining to 4.8% in the year 2025 and remaining at that level thereafter for medical benefits and 10.00% for 2018, gradually declining to 4.8% in the year 2026 and remaining at that level thereafter for prescription drug benefits. The assumed health care cost trend rate used in measuring the

Accumulated Postretirement Benefit Obligation at December 31, 2016 was 6.8% for 2017, gradually declining to 5.0% in the year 2024 and remaining at that level thereafter for medical benefits and 10.3% for 2017, gradually declining to 5.0% in the year 2024 and remaining at that level thereafter for prescription drug benefits.

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 17. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)

A one-percentage point increase in the assumed health care cost trend rate for each year would have increased the Accumulated Postretirement Benefit Obligation at December 31, 2017 by \$0.6 million and 2017 OPEB expense by an insignificant amount. A one-percentage point increase in the assumed health care cost trend rate for each year would have increased the Accumulated Postretirement Benefit Obligation at December 31, 2016 by \$0.6 million and 2016 OPEB expense by an insignificant amount.

The components of Comprehensive OPEB Expense (Income) for the years ended December 31, 2017, 2016 and 2015 were:

DOLLARS IN MILLIONS	2017	2016	2015
Service Cost Earned During the Year	\$0.1	\$0.1	\$0.2
Interest Cost on Accumulated Postretirement Benefit Obligation	0.4	0.8	1.0
Amortization of Actuarial Gain	(1.8)	(1.4)	(1.4)
OPEB Income Recognized in Consolidated Statements of Income	(1.3)	(0.5)	(0.2)
Unrecognized OPEB Loss (Gain) Arising During the Year	(0.5)	(1.3)	0.4
Prior Service Credit Arising During the Year	(1.3)	(11.0)	—
Amortization of Accumulated Unrecognized OPEB Gain	1.8	1.4	1.4
Comprehensive OPEB Expense (Income)	\$(1.3)	\$(11.4)	\$1.6

The Company estimates that OPEB Expense for the year ended December 31, 2018 will include income of \$3.0 million resulting from the amortization of the related accumulated actuarial gain and prior service credit included in AOCI at December 31, 2017.

Effective January 1, 2016, the Company changed its method for estimating the interest and service cost components of expense recognized for its pension and other postretirement employee benefit plans. As a result, the Company elected to use a full yield curve approach to estimate these components of benefit cost by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. See Note 2, "Summary of Accounting Policies and Accounting Changes," to the Consolidated Financial Statements for further discussion of the change. The weighted-average discount rate and rate of increase in future compensation levels used to develop OPEB Expense for the years ended December 31, 2017, 2016 and 2015 were:

	2017	2016	2015
Weighted-average Discount Rate	3.61%	3.70%	3.40%
Service Cost Discount Rate	3.79	4.21	—
Interest Cost Discount Rate	2.92	2.90	—
Rate of Increase in Future Compensation Levels	2.60	2.64	2.68

The Company expects to contribute \$1.6 million, net of the expected Medicare Part D subsidy, to its OPEB Plan to fund benefit payments in 2018.

The following benefit payments (net of participant contributions), which consider expected future service, as appropriate, are expected to be paid:

DOLLARS IN MILLIONS	Years Ending December 31,						
	2018	2019	2020	2021	2022	2023-2027	
Estimated Benefit Payments:							
Excluding Medicare Part D Subsidy	\$1.6	\$1.6	\$1.5	\$1.5	\$1.4	\$ 5.7	
Expected Medicare Part D Subsidy	—	—	—	—	—	—	
Net Estimated Benefit Payments	\$1.6	\$1.6	\$1.5	\$1.5	\$1.4	\$ 5.7	

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 18. BUSINESS SEGMENTS

The Company is engaged, through its subsidiaries, in the property and casualty insurance and life and health insurance businesses. The Company conducts its operations through two operating segments: Property & Casualty Insurance and Life & Health Insurance.

The Property & Casualty Insurance segment's principal products are personal automobile insurance, both preferred and nonstandard, homeowners insurance, other personal insurance and commercial automobile insurance. These products are distributed primarily through independent agents and brokers. The Life & Health Insurance segment's principal products are individual life, accident, health and property insurance. These products are distributed by career agents employed by the Company and independent agents and brokers.

The Company's earned premiums are derived in the United States. The accounting policies of the segments are the same as those described in Note 2, "Summary of Accounting Policies and Accounting Changes," to the Consolidated Financial Statements. Capital expenditures for long-lived assets by operating segment are immaterial.

It is the Company's management practice to allocate certain corporate expenses, primarily compensation costs for corporate employees and related facility costs, included in Interest and Other Expenses in the Consolidated Statements of Income to its insurance operations. The amount of such allocated corporate expenses was \$50.8 million, \$52.9 million and \$43.4 million for the years ended December 31, 2017, 2016 and 2015, respectively. The Company does not allocate Net Realized Gains on Sales of Investments, Net Impairment Losses Recognized in Earnings, interest expense on debt or postretirement benefit plans, and actuarial gains and losses on its postretirement benefit plans to its operating segments. Additionally, in 2017 the Company did not allocate the impact of the Tax Act to its operating segments.

Segment Assets at December 31, 2017 and 2016 were:

DOLLARS IN MILLIONS	2017	2016
Property & Casualty Insurance	\$2,894.9	\$2,815.1
Life & Health Insurance	5,079.3	4,888.7
Corporate and Other, Net	402.0	506.7
Total Assets	\$8,376.2	\$8,210.5

Earned Premiums by product line for the years ended December 31, 2017, 2016 and 2015 were:

DOLLARS IN MILLIONS	2017	2016	2015
Personal Automobile	\$1,377.1	\$1,244.6	\$1,027.7
Homeowners	264.8	271.9	286.3
Other Personal Property and Casualty Insurance	115.3	119.2	122.1
Commercial Automobile	51.4	53.3	54.5
Life	379.7	381.6	374.1
Accident and Health	161.7	149.4	144.9
Total Earned Premiums	\$2,350.0	\$2,220.0	\$2,009.6

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 18. BUSINESS SEGMENTS (Continued)

Segment Revenues, including a reconciliation to Total Revenues, for the years ended December 31, 2017, 2016 and 2015 were:

DOLLARS IN MILLIONS	2017	2016	2015
Segment Revenues:			
Property & Casualty Insurance:			
Earned Premiums	\$1,736.0	\$1,614.8	\$1,415.2
Net Investment Income	94.3	72.4	73.3
Other Income	1.1	0.5	0.6
Total Property & Casualty Insurance	1,831.4	1,687.7	1,489.1
Life & Health Insurance:			
Earned Premiums	614.0	605.2	594.4
Net Investment Income	221.5	213.2	214.2
Other Income	2.6	2.8	2.4
Total Life & Health Insurance	838.1	821.2	811.0
Total Segment Revenues	2,669.5	2,508.9	2,300.1
Net Realized Gains on the Sales of Investments	56.5	33.1	52.1
Net Impairment Losses Recognized in Earnings	(14.3)	(32.7)	(27.2)
Other	11.7	12.6	15.8
Total Revenues	\$2,723.4	\$2,521.9	\$2,340.8

Segment Operating Profit, including a reconciliation to Income from Continuing Operations before Income Taxes, for the years ended December 31, 2017, 2016 and 2015 was:

DOLLARS IN MILLIONS	2017	2016	2015
Segment Operating Profit (Loss):			
Property & Casualty Insurance	\$(1.4)	\$(17.2)	\$23.7
Life & Health Insurance	138.5	45.7	109.7
Total Segment Operating Profit	137.1	28.5	133.4
Corporate and Other Operating Loss	(18.2)	(25.4)	(48.9)
Total Operating Profit	118.9	3.1	84.5
Net Realized Gains on Sales of Investments	56.5	33.1	52.1
Net Impairment Losses Recognized in Earnings	(14.3)	(32.7)	(27.2)
Loss from Early Extinguishment of Debt	—	—	(9.1)
Income from Continuing Operations before Income Taxes	\$161.1	\$3.5	\$100.3

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 18. BUSINESS SEGMENTS (Continued)

Segment Net Operating Income, including a reconciliation to Income from Continuing Operations, for the years ended December 31, 2017, 2016 and 2015 was:

DOLLARS IN MILLIONS	2017	2016	2015
Segment Net Operating Income (Loss):			
Property & Casualty Insurance	\$7.8	\$(2.9)	\$26.7
Life & Health Insurance	90.8	30.3	71.7
Total Segment Net Operating Income	98.6	27.4	98.4
Corporate and Other Net Operating Income (Loss) From:			
Effects of Tax Law Changes	7.4	—	—
Other	(13.5)	(15.0)	(28.5)
Corporate and Other Net Operating Loss	(6.1)	(15.0)	(28.5)
Consolidated Net Operating Income	92.5	12.4	69.9
Net Income (Loss) From:			
Net Realized Gains on Sales of Investments	36.7	21.5	33.9
Net Impairment Losses Recognized in Earnings	(9.3)	(21.2)	(17.7)
Loss from Early Extinguishment of Debt	—	—	(5.9)
Income from Continuing Operations	\$119.9	\$12.7	\$80.2

Amortization of Deferred Policy Acquisition Costs by Operating Segment for the years ended December 31, 2017, 2016 and 2015 was:

DOLLARS IN MILLIONS	2017	2016	2015
Property & Casualty Insurance	\$264.8	\$252.1	\$213.1
Life & Health Insurance	53.5	47.2	44.3
Total Amortization	\$318.3	\$299.3	\$257.4

NOTE 19. DISCONTINUED OPERATIONS

The Company accounts for its former Unitrin Business Insurance operations as discontinued operations. Summary financial information included in Income from Discontinued Operations for the years ended December 31, 2017, 2016 and 2015 is presented below.

DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS	2017	2016	2015
Income from Discontinued Operations before Income Taxes:			
Change in Estimate of Retained Liabilities Arising from Discontinued Operations	\$1.5	\$6.3	\$8.6
Income Tax Expense	(0.5)	(2.2)	(3.1)
Income from Discontinued Operations	\$1.0	\$4.1	\$5.5
Income from Discontinued Operations Per Unrestricted Share:			
Basic	\$0.02	\$0.08	\$0.10
Diluted	\$0.02	\$0.08	\$0.10

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 19. DISCONTINUED OPERATIONS (Continued)

In 2008, the Company sold its Unitrin Business Insurance operations. The Company retained Property and Casualty Insurance Reserves for unpaid insured losses that occurred prior to the date of the sale. Property and Casualty Insurance Reserves reported in the Company's Consolidated Balance Sheets include \$32.8 million and \$38.3 million at December 31, 2017 and 2016, respectively, for the retained liabilities. In accordance with GAAP, changes in the Company's estimate of such retained liabilities after the sale are reported as a separate component of the results of discontinued operations. See Note 6, "Property and Casualty Insurance Reserves," to the Consolidated Financial Statements for information pertaining cash used by operating activities to pay losses and LAE related to discontinued operations.

NOTE 20. CATASTROPHE REINSURANCE

Catastrophes and natural disasters are inherent risks of the property and casualty insurance business. These catastrophic events and natural disasters include, without limitation, hurricanes, tornadoes, earthquakes, hailstorms, wildfires, high winds and winter storms. Such events result in insured losses that are, and will continue to be, a material factor in the results of operations and financial position of the Company's property and casualty insurance companies. Further, because the level of these insured losses occurring in any one year cannot be accurately predicted, these losses may contribute to material year-to-year fluctuations in the results of operations and financial position of these companies. Specific types of catastrophic events are more likely to occur at certain times within the year than others. This factor adds an element of seasonality to property and casualty insurance claims. The Company has adopted the industry-wide catastrophe classifications of storms and other events promulgated by ISO to track and report losses related to catastrophes. ISO classifies a disaster as a catastrophe when the event causes \$25.0 million or more in direct insured losses to property and affects a significant number of policyholders and insurers. ISO-classified catastrophes are assigned a unique serial number recognized throughout the insurance industry. The discussions that follow utilize ISO's definition of catastrophes.

The Company manages its exposure to catastrophes and other natural disasters through a combination of geographical diversification, restrictions on the amount and location of new business production in certain regions, and reinsurance. To limit its exposures to catastrophic events, the Company maintains various catastrophe reinsurance programs for its property and casualty insurance businesses.

Coverage for the Property & Casualty Insurance segment's catastrophe reinsurance program effective January 1, 2017 to December 31, 2017 is provided in various layers as presented below.

DOLLARS IN MILLIONS	Catastrophe	
	Losses and LAE	Percentage of Coverage
	In Excess of	
Property & Casualty Insurance Segment:		
Retained	\$ — \$ 50.0	— %
1st Layer of Coverage	50.0	95.0
2nd Layer of Coverage	150.0	31.7
2nd Layer of Coverage	150.0	63.3

Coverage for the Property & Casualty Insurance segment's catastrophe reinsurance program effective January 1, 2016 to December 31, 2016 is provided in various layers as presented below.

DOLLARS IN MILLIONS	Catastrophe	
	Losses and LAE	Percentage of Coverage
	In Excess of	
Property & Casualty Insurance Segment:		
Retained	\$ — \$ 50.0	— %

1st Layer of Coverage	50.0	50.0	95.0
2nd Layer of Coverage	150.0	50.0	95.0

124

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 20. CATASTROPHE REINSURANCE (Continued)

Coverage for the Property & Casualty Insurance segment's catastrophe reinsurance program effective January 1, 2015 to December 31, 2015 is provided in various layers as presented below.

DOLLARS IN MILLIONS	Catastrophe Losses and LAE		Percentage of Coverage
	In Excess of	Up to	
Property & Casualty Insurance Segment:			
Retained	\$ —	\$ 50.0	— %
1st Layer of Coverage	50.0	150.0	95.0
2nd Layer of Coverage	150.0	350.0	95.0

In the event that the Property & Casualty Insurance segment's incurred catastrophe losses and LAE covered by any of its catastrophe reinsurance programs presented in the three preceding tables exceed the retention for that particular layer, each of the programs required one reinstatement of such coverage. In such an instance, the Property & Casualty Insurance segment is required to pay a reinstatement premium to the reinsurers to reinstate the full amount of reinsurance available under such layer.

The Property & Casualty Insurance segment's catastrophe reinsurance in 2017, 2016 and 2015 also included reinsurance coverage from the Florida Hurricane Catastrophe Fund (the "FHCF") for hurricane losses in Florida at retentions lower than those described above. The Life & Health Insurance segment also purchases reinsurance from the FHCF for hurricane losses in Florida. Except for the coverage provided by the FHCF, the Life & Health Insurance segment does not carry any other catastrophe reinsurance coverage.

Reinsurance premiums for the Company's catastrophe reinsurance programs and the FHCF Program reduced earned premiums for the years ended December 31, 2017, 2016 and 2015 by the following:

DOLLARS IN MILLIONS	2017	2016	2015
Property & Casualty Insurance	\$ 10.9	\$ 11.9	\$ 12.8
Life & Health Insurance	0.1	0.1	0.1
Total Ceded Catastrophe Reinsurance Premiums	\$ 11.0	\$ 12.0	\$ 12.9

In 2017, the Company paid \$0.8 million in reinstatement premium to reinstate the first layer of coverage under the Property & Casualty Insurance segment's catastrophe reinsurance program. The Company did not pay any reinstatement premium in 2016 or 2015.

Catastrophe losses and LAE (including reserve development), net of reinsurance recoveries, for the years ended December 31, 2017, 2016 and 2015 by business segment are presented below.

DOLLARS IN MILLIONS	2017	2016	2015
Property & Casualty Insurance	\$ 174.0	\$ 90.4	\$ 56.6
Life & Health Insurance	6.4	5.4	3.9
Total Catastrophe Losses and LAE	\$ 180.4	\$ 95.8	\$ 60.5

In 2017, the Property & Casualty Insurance segment had catastrophe reinsurance recoveries of \$11.9 million under the catastrophe reinsurance program. The Property & Casualty Insurance segment did not have any recoveries from the FHCF. The Life & Health Insurance segment had reinsurance recoveries of \$0.2 million under the FHCF in 2017.

Neither segment had catastrophe reinsurance recoveries in 2016 or 2015.

Total catastrophe loss and LAE reserves, net of reinsurance recoverables, developed favorably by \$4.5 million, \$19.3 million and \$7.8 million in 2017, 2016 and 2015, respectively. The Property & Casualty Insurance segment reported favorable catastrophe reserve development of \$5.0 million, \$19.2 million and \$7.9 million in 2017, 2016 and 2015, respectively. The Life & Health Insurance segment reported adverse catastrophe reserve development of \$0.5 million in 2017, favorable catastrophe reserve development of \$0.1 million in 2016, and adverse catastrophe reserve development of \$0.1 million in 2015.

The process of estimating and establishing reserves for catastrophe losses is inherently uncertain and the actual ultimate cost of a claim, net of actual reinsurance recoveries, may vary materially from the estimated amount reserved. The Company's estimates of direct catastrophe losses are generally based on inspections by claims adjusters and historical loss development

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 20. CATASTROPHE REINSURANCE (Continued)

experience for areas that have not been inspected or for claims that have not yet been reported. The Company's estimates of direct catastrophe losses are based on the coverages provided by its insurance policies. The Company's homeowners and dwelling insurance policies do not provide coverage for losses caused by floods, but generally provide coverage for physical damage caused by wind or wind-driven rain. Accordingly, the Company's estimates of direct losses for homeowners and dwelling insurance do not include losses caused by flood. Depending on the policy, automobile insurance may provide coverage for losses caused by flood. Estimates of the number and severity of claims ultimately reported are influenced by many variables, including, but not limited to, repair or reconstruction costs and determination of cause of loss that are difficult to quantify and will influence the final amount of claim settlements. All these factors, coupled with the impact of the availability of labor and material on costs, require significant judgment in the reserve setting process. A change in any one or more of these factors is likely to result in an ultimate net claim cost different from the estimated reserve. The Company's estimates of indirect losses from wind pools and joint underwriting associations are based on a variety of factors, including, but not limited to, actual or estimated assessments provided by or received from such entities, insurance industry estimates of losses, and estimates of the Company's market share in the assessable states. Actual assessments may differ materially from these estimated amounts.

NOTE 21. OTHER REINSURANCE

In addition to the reinsurance programs described in Note 20, "Catastrophe Reinsurance," to the Consolidated Financial Statements, Kemper's insurance subsidiaries utilize other reinsurance arrangements to limit their maximum loss, provide greater diversification of risk and to minimize exposures on larger risks. The ceding of insurance does not discharge the primary liability of the original insurer. Accordingly, insurance reserve liabilities are reported gross of any estimated recovery from reinsurers in the Consolidated Balance Sheets. Amounts recoverable from reinsurers are estimated in a manner consistent with the insurance reserve liability and are included in Other Receivables in the Consolidated Balance Sheets.

Earned Premiums ceded on long-duration and short-duration policies were \$18.2 million, \$19.0 million and \$20.6 million for the years ended December 31, 2017, 2016 and 2015, respectively, of which \$11.0 million, \$12.0 million and \$12.9 million, respectively, was related to catastrophe reinsurance. See Note 20, "Catastrophe Reinsurance," to the Consolidated Financial Statements for additional information regarding the Company's catastrophe reinsurance programs. Certain insurance subsidiaries assume business from other insurance companies and involuntary pools. Earned Premiums assumed on long-duration and short-duration policies were \$72.9 million, \$67.3 million and \$60.0 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Trinity and Capitol County Mutual Fire Insurance Company ("Capitol") are parties to a quota share reinsurance agreement whereby Trinity assumes 100% of the business written by Capitol, subject to a cap, for ceded losses for dwelling coverage. Earned Premiums assumed by Trinity from Capitol were \$20.7 million, \$21.3 million and \$21.8 million for the years ended December 31, 2017, 2016 and 2015, respectively. Capitol is a mutual insurance company and, accordingly, is owned by its policyholders. Trinity and Old Reliable Casualty Company ("ORCC"), a subsidiary of Capitol, are parties to a quota share reinsurance agreement whereby Trinity assumes 100% of the business written by ORCC, subject to a cap for ceded losses for dwelling coverage. Earned Premiums assumed by Trinity from ORCC were \$5.9 million, \$6.2 million and \$6.5 million for the years ended December 31, 2017, 2016 and 2015, respectively. Five employees of the Company serve as directors of Capitol's five member board of directors. Nine employees of the Company also serve as directors of ORCC's nine member board of directors. Kemper's subsidiary, United Insurance, provides claims and administrative services to Capitol and ORCC. In addition, agents appointed by Kemper's subsidiary, The Reliable Life Insurance Company, and who are employed by United Insurance, are also appointed by Capitol and ORCC to sell property insurance products for the Company's Life & Health Insurance segment. The Company also provides certain investment services to Capitol and ORCC.

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 22. FAIR VALUE MEASUREMENTS

The Company classifies its Investments in Fixed Maturities and Equity Securities as available for sale and reports these investments at fair value. The Company has elected the fair value option method of accounting for investments in certain hedge funds and, accordingly, reports these investments at fair value. The Company classifies certain investments in mutual funds included in Other Investments as trading securities and reports these investments at fair value. The Company has a derivative instrument that is classified as a cash flow hedge and reported in Other Liabilities at fair value at December 31, 2017. The Company had a separate derivative instrument that was classified as a cash flow hedge and reported in Other Assets at fair value at December 31, 2016. The Company has no material liabilities that are measured and reported at fair value.

The valuation of assets and liabilities measured at fair value in the Company's Consolidated Balance Sheet at December 31, 2017 is summarized below.

DOLLARS IN MILLIONS	Fair Value Measurements				Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measured at Net Asset Value	
Fixed Maturities:					
U.S. Government and Government Agencies and Authorities States and Political Subdivisions	\$ 115.8	\$ 440.3	\$ —	—	\$ 556.1
Foreign Governments	—	1,701.8	—	—	1,701.8
Corporate Securities:					
Bonds and Notes	—	3.2	—	—	3.2
Redeemable Preferred Stocks	—	2,579.1	401.5	—	2,980.6
Collateralized Loan Obligations	—	—	0.1	—	0.1
Other Mortgage- and Asset-backed	—	46.6	93.2	—	139.8
Total Investments in Fixed Maturities	115.8	4,772.1	494.8	—	5,382.7
Equity Securities:					
Preferred Stocks:					
Finance, Insurance and Real Estate	—	55.7	—	—	55.7
Other Industries	—	12.3	10.8	—	23.1
Common Stocks:					
Finance, Insurance and Real Estate	7.0	0.1	—	—	7.1
Other Industries	0.7	0.4	16.6	—	17.7
Other Equity Interests:					
Exchange Traded Funds	219.5	—	—	—	219.5
Limited Liability Companies and Limited Partnerships	—	—	34.4	168.5	202.9
Total Investments in Equity Securities	227.2	68.5	61.8	168.5	526.0
Fair Value Option Investments:					
Limited Liability Companies and Limited Partnerships Hedge Funds	—	—	—	77.5	77.5
Other Investments:					
Trading Securities	6.7	—	—	—	6.7
Other Liabilities:					

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Derivative Instrument Classified as Cash Flow Hedge	—	(0.8)	—	—	(0.8)
Total	\$349.7	\$4,839.8	\$	556.6	\$	246.0	\$5,992.1

127

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 22. FAIR VALUE MEASUREMENTS (Continued)

At December 31, 2017, the Company had unfunded commitments to invest an additional \$141.3 million in certain limited liability investment companies and limited partnerships that will be included in Other Equity Interests when funded.

The valuation of assets measured at fair value in the Company's Consolidated Balance Sheet at December 31, 2016 is summarized below.

DOLLARS IN MILLIONS	Fair Value Measurements				Measured at Net Asset Value	Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measured at Net Asset Value		
Fixed Maturities:						
U.S. Government and Government Agencies and Authorities States and Political Subdivisions	\$ 119.5	\$ 216.8	\$ —	\$ —	\$ —	\$ 336.3
Foreign Governments	—	1,711.1	3.8	—	—	1,714.9
Corporate Securities:						
Bonds and Notes	—	3.4	—	—	—	3.4
Redeemable Preferred Stocks	—	2,541.6	403.2	—	—	2,944.8
Collateralized Loan Obligations	—	—	0.6	—	—	0.6
Other Mortgage- and Asset-backed	—	19.3	103.5	—	—	122.8
Total Investments in Fixed Maturities	119.5	4,494.3	511.1	—	—	5,124.9
Equity Securities:						
Preferred Stocks:						
Finance, Insurance and Real Estate	—	59.6	—	—	—	59.6
Other Industries	—	11.4	11.5	—	—	22.9
Common Stocks:						
Finance, Insurance and Real Estate	26.4	—	7.1	—	—	33.5
Other Industries	0.4	0.2	11.1	—	—	11.7
Other Equity Interests:						
Exchange Traded Funds	144.4	—	—	—	—	144.4
Limited Liability Companies and Limited Partnerships	—	—	40.9	168.7	168.7	209.6
Total Investments in Equity Securities	171.2	71.2	70.6	168.7	168.7	481.7
Fair Value Option Investments:						
Limited Liability Companies and Limited Partnerships Hedge Funds	—	—	—	111.4	111.4	111.4
Other Investments:						
Trading Securities	5.3	—	—	—	—	5.3
Other Assets:						
Derivative Instrument Classified as Cash Flow Hedge	—	1.6	—	—	—	1.6
Total	\$ 296.0	\$ 4,567.1	\$ 581.7	280.1	280.1	\$ 5,724.9

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 22. FAIR VALUE MEASUREMENTS (Continued)

The Company's investments in Fixed Maturities that are classified as Level 1 in the two preceding tables primarily consist of U.S. Treasury Bonds and Notes. The Company's investments in Equity Securities that are classified as Level 1 in the two preceding tables consist either of investments in publicly-traded common stocks or exchange traded funds. The Company's investments in Fixed Maturities that are classified as Level 2 in the two preceding tables primarily consist of investments in corporate bonds, obligations of states and political subdivisions, and bonds and mortgage-backed securities of U.S. government agencies. The Company's investments in Equity Securities that are classified as Level 2 in the two preceding tables primarily consist of investments in preferred stocks. The Company uses a leading, nationally recognized provider of market data and analytics to price the vast majority of the Company's Level 2 measurements. The provider utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information. Because many fixed maturity securities do not trade on a daily basis, the provider's evaluated pricing applications apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing to prepare evaluations. In addition, the provider uses model processes to develop prepayment and interest rate scenarios. The pricing provider's models and processes also take into account market convention. For each asset class, teams of its evaluators gather information from market sources and integrate relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models. The Company generally validates the measurements obtained from its primary pricing provider by comparing them with measurements obtained from one additional pricing provider that provides either prices from recent market transactions or quotes in inactive markets or evaluations based on its own proprietary models.

The Company investigates significant differences related to the values provided. On completion of its investigation, management exercises judgment to determine the price selected and whether adjustments, if any, to the price obtained from the Company's primary pricing provider would warrant classification of the price as Level 3. In instances where a measurement cannot be obtained from either pricing provider, the Company generally will evaluate bid prices from one or more binding quotes obtained from market makers to value investments in inactive markets and classified by the Company as Level 2. The Company generally classifies securities when it receives non-binding quotes or indications as Level 3 securities unless the Company can validate the quote or indication against recent transactions in the market.

The Company's investments in Fixed Maturities that are classified as Level 3 in the two preceding tables primarily consist of privately placed securities not rated by a Nationally Recognized Statistical Rating Organization and are priced primarily using a market yield approach. A market yield approach uses a risk-free rate plus a credit spread depending on the underlying credit profile of the security. For floating rate securities, the risk-free rate used in the market yield is the contractual floating rate of the security. For each individual security, the Company or the Company's third party appraiser gathers information from market sources, relevant credit information, perceived market movements and sector news and determines an appropriate market yield for each security. The market yield selected is then used to discount the estimated future cash flows of the security to determine the fair value. The Company separately evaluates market yields based upon asset class to assess the reasonableness of the recorded fair value. For non-investment-grade investments in Fixed Maturities that are classified as Level 3, the two primary asset classes are senior debt and junior debt. Senior debt includes those securities that receive first priority in a liquidation and junior debt includes any fixed maturity security with other than first priority in a liquidation.

The table below presents quantitative information about the significant unobservable inputs utilized by the Company in determining fair values for fixed maturity investments in corporate securities classified as Level 3 at December 31, 2017.

DOLLARS IN MILLIONS	Unobservable Input	Total Fair Value	Range of Unobservable Inputs	Weighted Average Yield
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Investment-grade	Market Yield	\$ 96.2	3.0 %	-6.7 %	3.8 %
Non-investment-grade:					
Senior Debt	Market Yield	138.1	4.5	-15.7	10.0
Junior Debt	Market Yield	154.1	9.6	-24.3	12.9
Collateralized Loan Obligations (investment-grade and non-investment-grade)	Market Yield	93.2	4.3	-10.6	7.8
Other	Various	13.2			
Total Fixed Maturity Investments in Corporate Securities		\$ 494.8			

129

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 22. FAIR VALUE MEASUREMENTS (Continued)

The table below presents quantitative information about the significant unobservable inputs utilized by the Company in determining fair values for fixed maturity investments in corporate securities classified as Level 3 at December 31, 2016.

DOLLARS IN MILLIONS	Unobservable Input	Total Fair Value	Range of Unobservable Inputs	Weighted Average Yield
Investment-grade	Market Yield	\$ 106.1	2.7 % - 5.1 %	3.8 %
Non-investment-grade:				
Senior Debt	Market Yield	142.2	4.8 - 14.0	9.6
Junior Debt	Market Yield	143.3	9.5 - 20.0	13.0
Collateralized Loan Obligations	Market Yield	103.5	3.7 - 9.9	6.3
Other	Various	16.0		
Total Fixed Maturity Investments in Corporate Securities		\$ 511.1		

For an investment in a fixed maturity security, an increase in the yield used to determine the fair value of the security will decrease the fair value of the security. A decrease in the yield used to determine fair value will increase the fair value of the security, but the fair value increase is generally limited to par, unless callable at a premium, if the security is currently callable.

The Company's other investments that are classified as Level 3 primarily consist of Limited Liability Companies and Limited Partnerships, but also certain Preferred Stocks and Common Stocks. The Company either uses valuations provided by third party fund managers, third party appraisers, or that are generated internally. These valuations typically employ various valuation techniques commonly used in the industry, including earnings multiples based on comparable public securities, industry-specific non-earnings based multiples, market yields based on comparable public securities and discounted cash flow models.

Information by security type pertaining to the changes in the fair value of the Company's investments classified as Level 3 for the year ended December 31, 2017 is presented below.

DOLLARS IN MILLIONS	Fixed Maturities					Equity Securities			Total
	Corporate Bonds and Notes	States and Political Sub-divisions	Redeemable Preferred Stocks	Collateralized Loan Obligations	Other Mortgage and Asset backed	Preferred and Common Stocks	Other Equity Interests		
Balance at Beginning of Year	\$403.2	\$ 3.8	\$ 0.6	\$ 103.5	\$ —	—\$29.7	\$ 40.9	\$581.7	
Total Gains (Losses):									
Included in Consolidated Statements of Income	(5.7)	(1.2)	0.1	1.5	—	1.4	4.0	0.1	
Included in Other Comprehensive Income	4.9	0.1	(0.1)	2.4	—	3.4	(4.8)	5.9	
Purchases	171.0	—	—	34.0	—	4.6	3.1	212.7	
Settlements	(110.6)	(2.6)	(0.5)	(33.5)	—	—	—	(147.2)	
Sales	(40.8)	—	—	(7.9)	—	(8.2)	(8.8)	(65.7)	
Transfers into Level 3	8.1	1.4	—	5.0	—	—	—	14.5	
Transfers out of Level 3	(28.6)	(1.5)	—	(11.8)	—	(3.5)	—	(45.4)	
Balance at End of Year	\$401.5	\$ —	\$ 0.1	\$ 93.2	\$ —	—\$27.4	\$ 34.4	\$556.6	

The Company's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers between Levels 1 and 2 for the year ended December 31, 2017. Transfers out of Level 3 were \$45.4 million

for the year ended December 31, 2017, of which \$3.5 million was transferred into Level 1 due to an issuer's initial public offering of the security and \$41.9 million was transferred into Level 2 due to changes in the availability of market observable inputs.

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 22. FAIR VALUE MEASUREMENTS (Continued)

Information by security type pertaining to the changes in the fair value of the Company's investments classified as Level 3 for the year ended December 31, 2016 is presented below.

DOLLARS IN MILLIONS	Fixed Maturities				Equity Securities			Total
	Corporate Bonds and Notes	States and Political Sub-divisions	Redeemable Preferred Stocks	Collateralized Loan Obligations	Other Mortgage and Asset-backed	Preferred and Common Stocks	Other Equity Interests	
Balance at Beginning of Year	\$436.3	\$ —	\$ 3.8	\$ 87.3	\$ 3.8	\$30.0	\$ 45.6	\$606.8
Total Gains (Losses):								
Included in Consolidated Statement of Income	(23.0)	(0.3)	—	—	0.4	(1.7)	(1.6)	(26.2)
Included in Other Comprehensive Income	0.9	—	—	4.3	(0.3)	3.4	(2.4)	5.9
Purchases	203.7	—	—	29.1	—	7.9	3.9	244.6
Settlements	(85.4)	—	(3.2)	(5.0)	(3.0)	(5.2)	—	(101.8)
Sales	(114.5)	—	—	(1.9)	—	(4.7)	(4.6)	(125.7)
Transfers into Level 3	—	4.1	—	—	—	—	—	4.1
Transfers out of Level 3	(14.8)	—	—	(10.3)	(0.9)	—	—	(26.0)
Balance at End of Year	\$403.2	\$ 3.8	\$ 0.6	\$ 103.5	\$ —	\$29.7	\$ 40.9	\$581.7

The Company's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers between Levels 1 and 2 or Levels 1 and 3 for the year ended December 31, 2016. The transfers out of Level 3 for the year ended December 31, 2016 were due to changes in the availability of market observable inputs.

The fair value of Debt is estimated using quoted prices for similar liabilities in markets that are not active. The inputs used in the valuation are considered Level 2 measurements. The fair value of Short-term Investments is estimated using inputs that are considered Level 1 or Level 2 measurements.

NOTE 23. CONTINGENCIES

In the ordinary course of its businesses, the Company is involved in legal proceedings, including lawsuits, regulatory examinations, audits and inquiries. Except with regard to the matters discussed below, based on currently available information, the Company does not believe that it is reasonably possible that any of its pending legal proceedings will have a material effect on the Company's consolidated financial statements.

Over the last several years there have been an array of initiatives that seek, in various ways, to impose new duties on life insurance companies to proactively search for information related to the deaths of their insureds. These initiatives, which can include legislation, unclaimed property audits, market conduct examinations and related litigation, could have the effect of altering the terms of Kemper's life insurance subsidiaries' existing life insurance contracts by imposing requirements that did not exist and were not contemplated at the time those companies entered into such contracts.

In the third quarter of 2016, the Company voluntarily began implementing a comprehensive process to compare its life insurance records against one or more death verification databases to determine if any of its insureds may be deceased. See Note 2, "Summary of Accounting Policies and Accounting Changes," to the Consolidated Financial Statements for discussion of the estimated financial impact of such voluntary action recognized in the Company's Consolidated Financial Statements. Any attempt to estimate the ultimate outcomes of the aforementioned initiatives entails uncertainties including, but not limited to (i) the scope and interpretation of DMF statutes, including the matching criteria and methodologies to be used in comparing policy records against a DMF, (ii) the universe of

policies affected, (iii) the results of audits, examinations and other actions by regulators and (iv) related litigation.

131

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 23. CONTINGENCIES (Continued)

Gain Contingency

In October 2015, Kemper's subsidiary, Kemper Corporate Services, Inc. ("KCSI"), filed a demand for arbitration with the American Arbitration Association ("AAA"), claiming that Computer Services Corporation ("CSC") had breached the terms of a master software license and services agreement and related agreements (collectively, the "Agreements") by failing, among other things, to timely produce and deliver certain software to KCSI. CSC denied KCSI's claims and filed a counterclaim. On April 1, 2017, CSC merged with a spin-off of the Enterprise Services business of Hewlett Packard Enterprise Company and is now known as DXC Technology Company ("DXC"). Currently, DXC's stock is publicly traded on the New York Stock Exchange.

In April 2017, the parties participated in an evidentiary hearing before a AAA-appointed arbitrator. Subsequently, the parties submitted post-hearing briefs, held closing arguments, and submitted proposed awards to the arbitrator.

In October 2017, the arbitrator issued a Partial Final Award finding that CSC had breached the Agreements and awarding KCSI direct damages of \$84.3 million plus pre-judgment interest at an annual rate of 9% pursuant to applicable law. KCSI subsequently filed a Motion to Confirm Arbitration Award in the U.S. District Court for the Northern District of Texas seeking confirmation and enforcement of the Partial Final Award and also submitted to the arbitrator a supplemental petition providing pre-judgment interest calculations and seeking an award for certain costs and expenses. In November 2017, the arbitrator issued a Final Award awarding KCSI direct damages against CSC of \$84.3 million, prejudgment interest at the annual rate of 9% and costs and expenses in the amount of \$7.2 million. KCSI then filed an Amended Motion to Confirm Arbitration Award seeking confirmation and enforcement of the Final Award.

In December 2017, CSC filed a Petition to Vacate an Arbitration Award in the U.S. District Court for the Southern District of New York and a motion to stay the proceedings in Texas. Following briefing and a hearing, the New York district court denied CSC's motion to stay the Texas action and instead stayed the New York action. The Texas district court then set a briefing schedule with regard to CSC's motion to transfer venue to the Southern District of New York. Once venue is resolved, the parties will proceed with the confirmation and vacatur litigation.

The Company cannot make any assurance as to the final amount of the judgment that may be entered in favor of KCSI or when it will be collected. The Final Award is treated as gain contingency for accounting purposes and accordingly, is not recognized in these Consolidated Financial Statements.

NOTE 24. RELATED PARTIES

Mr. Christopher B. Sarofim, a director of Kemper, is Vice Chairman and a member of the board of directors of Fayeze Sarofim & Co. ("FS&C"), a registered investment advisory firm. In 2015, FS&C provided investment management services with respect to certain assets of Kemper's subsidiary, Trinity, under an agreement between the parties. Trinity began reducing the amount of assets managed by FS&C in 2014, and completed the disposal of all the assets managed by FS&C in 2015. Investment Expenses incurred in connection with such agreement were \$0.1 million for the year ended December 31, 2015.

The Company's Pension Plan had \$171.8 million, \$148.4 million and \$137.2 million in assets managed by FS&C at December 31, 2017, 2016 and 2015, respectively, under an agreement with FS&C whereby FS&C provides investment management services with respect to certain funds of the plan. Investment Expenses incurred in connection with such agreement were \$0.9 million, \$0.8 million and \$0.4 million for the years ended December 31, 2017, 2016 and 2015, respectively.

The Company believes that the transactions described above have been provided on terms no less favorable to the Company than could have been negotiated with non-affiliated third parties.

As described in Note 21, "Other Reinsurance," to the Consolidated Financial Statements, the Company also has certain relationships with Capitol, a mutual insurance company that is owned by its policyholders, and its subsidiary, ORCC.

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 25. QUARTERLY FINANCIAL INFORMATION (Unaudited)

DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS	Three Months Ended (Unaudited)				Year
	Mar 31, 2017	Jun 30, 2017	Sep 30, 2017	Dec 31, 2017	Ended Dec 31, 2017
Revenues:					
Earned Premiums	\$563.4	\$582.5	\$598.2	\$605.9	\$2,350.0
Net Investment Income	81.6	77.1	85.9	82.6	327.2
Other Income	0.9	1.0	1.0	1.1	4.0
Net Realized Gains on Sales of Investments	10.5	26.4	8.1	11.5	56.5
Other-than-temporary Impairment Losses:					
Total Other-than-temporary Impairment Losses	(5.2)	(2.6)	(2.9)	(3.7)	(14.4)
Portion of Losses Recognized in Other Comprehensive Income	0.2	—	—	(0.1)	0.1
Net Impairment Losses Recognized in Earnings	(5.0)	(2.6)	(2.9)	(3.8)	(14.3)
Total Revenues	651.4	684.4	690.3	697.3	2,723.4
Expenses:					
Policyholders' Benefits and Incurred Losses and Loss Adjustment Expenses	477.4	447.4	440.1	472.5	1,837.4
Insurance Expenses	158.0	163.5	163.7	159.1	644.3
Interest and Other Expenses	19.5	21.4	18.2	21.5	80.6
Total Expenses	654.9	632.3	622.0	653.1	2,562.3
Income (Loss) from Continuing Operations before Income Taxes	(3.5)	52.1	68.3	44.2	161.1
Income Tax Benefit (Expense)	3.1	(15.5)	(20.5)	(8.3)	(41.2)
Income (Loss) from Continuing Operations	(0.4)	36.6	47.8	35.9	119.9
Income (Loss) from Discontinued Operations	0.1	—	(0.1)	1.0	1.0
Net Income (Loss)	\$(0.3)	\$36.6	\$47.7	\$36.9	\$120.9
Income (Loss) from Continuing Operations Per Unrestricted Share:					
Basic	\$(0.01)	\$0.71	\$0.92	\$0.69	\$2.32
Diluted	\$(0.01)	\$0.71	\$0.92	\$0.69	\$2.31
Net Income (Loss) Per Unrestricted Share:					
Basic	\$(0.01)	\$0.71	\$0.92	\$0.71	\$2.34
Diluted	\$(0.01)	\$0.71	\$0.92	\$0.71	\$2.33
Dividends Paid to Shareholders Per Share	\$0.24	\$0.24	\$0.24	\$0.24	\$0.96

The sum of quarterly per share amounts may not equal per share amounts for the year due to differences in weighted-average shares and/or equivalent shares outstanding for each of the periods presented.

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 25. QUARTERLY FINANCIAL INFORMATION (Unaudited) (Continued)

DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS	Three Months Ended (Unaudited)				Year
	Mar 31, 2016	Jun 30, 2016	Sep 30, 2016	Dec 31, 2016	Ended Dec 31, 2016
Revenues:					
Earned Premiums	\$546.0	\$553.7	\$558.9	\$561.4	\$2,220.0
Net Investment Income	67.0	73.7	77.7	79.9	298.3
Other Income	0.8	0.6	0.8	1.0	3.2
Net Realized Gains on Sales of Investments	6.8	5.6	11.6	9.1	33.1
Other-than-temporary Impairment Losses:					
Total Other-than-temporary Impairment Losses	(9.6)	(6.4)	(8.3)	(8.7)	(33.0)
Portion of Losses Recognized in Other Comprehensive Income	0.3	—	—	—	0.3
Net Impairment Losses Recognized in Earnings	(9.3)	(6.4)	(8.3)	(8.7)	(32.7)
Total Revenues	611.3	627.2	640.7	642.7	2,521.9
Expenses:					
Policyholders' Benefits and Incurred Losses and Loss Adjustment Expenses	436.2	436.1	490.2	418.3	1,780.8
Insurance Expenses	159.3	167.8	161.7	158.5	647.3
Interest and Other Expenses	22.3	20.7	22.0	25.3	90.3
Total Expenses	617.8	624.6	673.9	602.1	2,518.4
Income (Loss) from Continuing Operations before Income Taxes	(6.5)	2.6	(33.2)	40.6	3.5
Income Tax Benefit (Expense)	4.3	1.5	14.9	(11.5)	9.2
Income from Continuing Operations	(2.2)	4.1	(18.3)	29.1	12.7
Income (Loss) from Discontinued Operations	0.1	(0.1)	2.0	2.1	4.1
Net Income	\$(2.1)	\$4.0	\$(16.3)	\$31.2	\$16.8
Income from Continuing Operations Per Unrestricted Share:					
Basic	\$(0.04)	\$0.08	\$(0.36)	\$0.56	\$0.25
Diluted	\$(0.04)	\$0.08	\$(0.36)	\$0.56	\$0.25
Net Income Per Unrestricted Share:					
Basic	\$(0.04)	\$0.08	\$(0.32)	\$0.60	\$0.33
Diluted	\$(0.04)	\$0.08	\$(0.32)	\$0.60	\$0.33
Dividends Paid to Shareholders Per Share	\$0.24	\$0.24	\$0.24	\$0.24	\$0.96

The sum of quarterly per share amounts may not equal per share amounts for the year due to differences in weighted-average shares and/or equivalent shares outstanding for each of the periods presented.

Kemper Corporation and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

NOTE 26. SUBSEQUENT EVENTS

On February 13, 2018, Kemper, Kemper Merger Sub and Infinity entered into the Infinity Merger Agreement under which Kemper will acquire Infinity in a cash and stock transaction valued at approximately \$1.4 billion, plus assumption of certain of Infinity's debt, or \$129.00 per Infinity share; the exchange ratio for stock consideration to be issued in the merger is fixed and was determined based on Kemper's 20-trading day volume weighted average price as of February 12, 2018 of \$64.40. Based on Kemper's February 12, 2018 closing stock price of \$57.75, the implied total consideration is approximately \$1.3 billion, or \$121.01 per Infinity share. Pursuant to the Infinity Merger Agreement, Kemper Merger Sub will merge with and into Infinity, with Infinity surviving as a wholly owned subsidiary of Kemper. Infinity is a national provider of auto insurance focused on serving the specialty, nonstandard segment. With approximately 2,300 employees, 10,600 independent agents and \$1.4 billion in 2017 direct written premiums, Infinity is one of the largest nonstandard auto insurers in the United States.

Under the terms of the Infinity Merger Agreement, as of the effective time of the Infinity Merger (the "Effective Time"), each share of Infinity common stock issued and outstanding as of immediately prior to the Effective Time (other than as set forth in the Infinity Merger Agreement) will be canceled and converted into, at the election of the holder of such share, the right to, receive (i) \$51.60 in cash and 1.2019 Kemper common shares for each share of Infinity common stock, without interest (the "Mixed Consideration"), (ii) an amount of cash for each share of Infinity common stock, without interest, equal to \$129.00 (the "Cash Consideration") or (iii) a number of shares of Kemper common stock equal to 2.0031 (the "Stock Consideration"). Holders of Infinity common stock who do not make an election will receive the Mixed Consideration. The consideration to be paid to holders of Infinity common stock electing to receive the Cash Consideration or the Stock Consideration in connection with the Infinity Merger is subject to automatic adjustment, as applicable, to ensure that the total amount of cash paid and the total number of shares of Kemper common stock issued in the Infinity Merger is the same as what would be paid and issued if all holders of Infinity common stock were to receive the Mixed Consideration. Following the close of the Infinity Merger, Infinity shareholders are expected to own approximately 20% of the combined company on a pro-forma basis.

The Infinity Merger has been approved by the Board of Directors of each company and is expected to close in the third quarter of 2018, subject to the satisfaction or waiver of applicable closing conditions. Such closing conditions to which the completion of the Infinity Merger is subject include, among others, (i) adoption by Infinity shareholders of the Infinity Merger Agreement, (ii) approval by Kemper stockholders of the issuance of Kemper common stock in connection with the Infinity Merger, (iii) the expiration or termination of any applicable waiting period (or extensions thereof) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the receipt of certain other regulatory approvals, (iv) the absence of any effective order issued by any court of competent jurisdiction or other legal restraint prohibiting or preventing the consummation of the Infinity Merger and (v) other closing conditions.

Report of Independent Registered
Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Kemper Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Kemper Corporation and subsidiaries (the “Company”) as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income (loss), shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the “financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position, of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

Basis for Opinions

The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding

prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Report of Independent Registered
Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (Continued)

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP
Chicago, Illinois
February 13, 2018

We have served as the Company's auditor since 2002.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not Applicable

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

The Company's management, with participation of Kemper's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, Kemper's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by Kemper in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified by the SEC's rules and forms, and accumulated and communicated to the Company's management, including Kemper's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management Report on Internal Control Over Financial Reporting

We, as management of the Company, are responsible for establishing and maintaining adequate internal control over financial reporting. Pursuant to the rules and regulations of the SEC, internal control over financial reporting is a process designed by, or under the supervision of, a company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

• Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

• Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

• Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2017, based on the control criteria established in a report entitled Internal Control—Integrated Framework, issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, we have concluded that the Company's internal control over financial reporting is effective as of December 31, 2017.

The independent registered public accounting firm of Deloitte & Touche LLP, as auditors of the consolidated financial statements of Kemper and its subsidiaries, has issued an attestation report on the effectiveness of management's internal control over financial reporting based on criteria established in Internal Control—Integrated Framework, issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission.

/S/ JOSEPH P. LACHER, JR.

Joseph P. Lacher, Jr.

President and Chief Executive Officer
Kemper Corporation

February 13, 2018

/S/ JAMES J. MCKINNEY

James J. McKinney

Senior Vice President and Chief Financial Officer
Kemper Corporation

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The attestation report of the independent registered public accounting firm, Deloitte & Touche LLP, on the Company's internal control over financial reporting is included in Item 8 under the heading "Report of Independent Registered Public Accounting Firm," and is incorporated herein by reference.

Item 9B. Other Information.

None

139

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item is incorporated herein by reference to the sections captioned “Meetings and Committees of the Board of Directors,” “Business Experience of Nominees,” “Executive Officers,” “Ownership of Kemper Common Stock” and “Corporate Governance” in the Proxy Statement for Kemper’s 2018 Annual Meeting of Shareholders. Kemper plans to file such proxy statement within 120 days after December 31, 2017, the end of Kemper’s fiscal year.

Kemper’s code of ethics applicable to its chief executive officer, chief financial officer and principal accounting officer (“Code of Ethics for Senior Financial Executives”) is posted in the “Governance” section of Kemper’s website, kemper.com. Kemper also intends to disclose any future amendments to, and any waivers from (though none are anticipated), the Code of Ethics for Senior Financial Executives in the “Governance” section of its website.

Item 11. Executive Compensation.

The information required by this Item is incorporated herein by reference to the sections captioned “Executive Officer Compensation and Benefits,” “Director Compensation,” “Compensation Committee Interlocks and Insider Participation,” and “Compensation Committee Report” in the Proxy Statement for Kemper’s 2018 Annual Meeting of Shareholders. The Compensation Committee Report to be included in such Proxy Statement shall be deemed to be furnished in this report and shall not be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act as a result of such furnishing in this Item 11.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item is set forth in the table below and incorporated herein by reference to the section captioned “Ownership of Kemper Common Stock” in the Proxy Statement for Kemper’s 2018 Annual Meeting of Shareholders.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans or Programs (1)
Equity Compensation Plans Approved by Security Holders	1,012,279	\$ 37.45	6,338,224
Equity Compensation Plans Not Approved by Security Holders	—	—	—
Total	1,012,279	\$ 37.45	6,338,224

(1) Includes 677,949 shares reserved for future grants based on performance results under the terms of outstanding PSU awards.

Kemper’s Omnibus Plan permits various stock-based awards including, but not limited to, stock options, stock appreciation rights, DSUs, RSUs, and PSUs.

The design of the Omnibus Plan provides for fungible use of shares to determine the number of shares available for future grants, with a fungible conversion factor of three to one, such that the Share Authorization will be reduced at two different rates, depending on the type of award granted. Each share of Kemper common stock issuable upon the exercise of stock options or stock appreciation rights will reduce the number of shares available for future grant under the Share Authorization by one share, while each share of Kemper common stock issued pursuant to “full value awards” will reduce the number of shares available for future grant under the Share Authorization by three shares. “Full value awards” are awards, other than stock options or stock appreciation rights, that are settled by the issuance of shares of Kemper common stock and include RSUs, PSUs and DSUs, if settled with stock.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item is incorporated herein by reference to the sections captioned “Related Person Transactions” and “Director Independence” in the Proxy Statement for Kemper’s 2018 Annual Meeting of Shareholders.

Item 14. Principal Accounting Fees and Services.

The information required by this Item is incorporated by reference to the section captioned “Independent Registered Public Accountant” in the Proxy Statement for Kemper’s 2018 Annual Meeting of Shareholders.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) Documents filed as part of this Report

1. Financial Statements. The consolidated balance sheets of Kemper and subsidiaries as of December 31, 2017 and 2016, and the consolidated statements of income, comprehensive income (loss), cash flows and shareholders' equity for the years ended December 31, 2017, 2016 and 2015, together with the notes thereto and the report of Deloitte & Touche LLP thereon appearing in Item 8 are included in this 2017 Annual Report.

2. Financial Statement Schedules. The following four financial statement schedules are included on the pages immediately following the signature pages hereof. Schedules not listed here have been omitted because they are not applicable or not material or the required information is included in the Consolidated Financial Statements.

Schedule I Investments Other Than Investments in Related Parties

Schedule II Parent Company Financial Statements

Schedule III Supplementary Insurance Information

Schedule IV Reinsurance Schedule

The Report of Independent Registered Public Accounting Firm, Deloitte & Touche LLP, with regards to the Financial Statement Schedules listed above, is incorporated by reference to the Report of Independent Registered Public Accountant included in Item 8.

3. Exhibits. An Exhibit Index has been filed as part of this report on pages 143 through 147.

(b) Exhibits. Included in Item 15(a)3 above

(c) Financial Statement Schedules. Included in Item 15(a)2 above

Item 16. Form 10-K Summary

None

Exhibit Index

The following exhibits are either filed as a part hereof or are incorporated by reference. Exhibit numbers followed by an asterisk (*) indicate exhibits that are management contracts or compensatory plans or arrangements.

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed or Furnished Herewith
		Form	File Number	Exhibit	
<u>3.1</u>	<u>Restated Certificate of Incorporation</u>	8-K	001-18298	3.2	August 8, 2014
<u>3.2</u>	<u>Amended and Restated Bylaws of Kemper Corporation</u>	8-K	001-18298	3.3	August 8, 2014
<u>4.1</u>	<u>Indenture, dated as of February 27, 2014, by and between Kemper Corporation and The Bank of New York Mellon Trust Company, N.A., as Trustee</u>	8-K	001-18298	4.1	February 27, 2014
<u>4.2</u>	<u>First Supplemental Indenture dated as of February 27, 2014, to the Indenture dated as of February 27, 2014, by and between Kemper and The Bank of New York Mellon Trust Company, N.A., as Trustee (including the form of 7.375% Subordinated Debentures due 2054).</u>	8-K	001-18298	4.2	February 27, 2014
<u>4.3</u>	<u>Second Supplemental Indenture, dated as of February 24, 2015, to the Indenture, dated as of February 27, 2014, between Kemper Corporation and The Bank of New York Mellon Trust Company, N.A., as Trustee (including the form of 4.350% Senior Notes due 2025)</u>	8-K	001-18298	4.2	February 24, 2015
<u>4.4</u>	<u>Form of Certificate Representing Shares of Kemper Corporation Common Stock</u>	10-K	001-18298	4.6	February 12, 2016
<u>10.1</u>	<u>Amended and Restated Credit Agreement, dated as of June 2, 2015, by and among Kemper, the lenders party thereto, JP Morgan Chase Bank, N.A., as administrative agent, swing line lender and issuing bank, and Wells Fargo Bank, National Association and Fifth Third Bank, as co-syndication agents</u>	8-K	001-18298	10.1	June 8, 2015
<u>10.2</u>	<u>Advances and Security Agreement and Addendum to Advances and Security Agreement, effective as of December 31, 2013, between Trinity Universal Insurance Company and the Federal Home Loan Bank of Dallas</u>	10-K	001-18298	10.2	February 14, 2014
<u>10.3</u>	<u>Advances, Collateral Pledge, and Security Agreement, dated as of March 18, 2014, between United Insurance Company of America and the Federal Home Loan Bank of Chicago</u>	8-K	001-18298	10.1	March 21, 2014
<u>10.4*</u>	<u>Kemper Pension Equalization Plan, as amended and restated effective August 25, 2011, as amended by Amendment No. 2 effective September 16, 2013</u>	10-K	001-18298	10.3	February 14, 2014
<u>10.5*</u>	<u>Kemper Supplemental Retirement Plan, as amended and restated effective September 22, 2016</u>	10-K	001-18298	10.5	February 13, 2017
<u>10.6*</u>	<u>Kemper Non-Qualified Deferred Compensation Plan, as amended and restated effective March 16, 2016</u>	10-Q	001-18298	10.3	May 5, 2016

<u>10.7*</u>	<u>Kemper 1995 Non-employee Director Stock Option Plan, as amended and restated effective February 3, 2009</u>	10-K 001-18298 10.2	February 4, 2009
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143

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Exhibit Number	Exhibit Description	Incorporated by Reference			Filed or Furnished Herewith
		Form	File Number	Exhibit	
<u>10.8*</u>	<u>Form of Stock Option Agreement under the Kemper 1995 Non-employee Director Stock Option Plan, as of February 1, 2006</u>	10-Q	001-18298	10.6	May 4, 2011
<u>10.9*</u>	<u>Form of Stock Option Agreement under the Kemper 1995 Non-employee Director Stock Option Plan, as of February 3, 2009</u>	10-K	001-18298	10.7	February 4, 2009
<u>10.10*</u>	<u>Kemper 1997 Stock Option Plan, as amended and restated effective February 1, 2006</u>	10-Q	001-18298	10.2	May 4, 2011
<u>10.11*</u>	<u>Form of Stock Option and SAR Agreement under the Kemper 1997 Stock Option Plan, as of February 1, 2006</u>	10-Q	001-18298	10.8	May 4, 2011
<u>10.12*</u>	<u>Kemper 2002 Stock Option Plan, as amended and restated effective February 3, 2009</u>	10-K	001-18298	10.4	February 4, 2009
<u>10.13*</u>	<u>Form of Stock Option and SAR Agreement under the Kemper 2002 Stock Option Plan, as of February 1, 2006</u>	10-Q	001-18298	10.9	May 4, 2011
<u>10.14*</u>	<u>Form of Stock Option Agreement (including stock appreciation rights) under the Kemper 2002 Stock Option Plan, as of February 1, 2011</u>	10-K	001-18298	10.9	February 3, 2011
<u>10.15*</u>	<u>Kemper 2011 Omnibus Equity Plan, as amended and restated effective October 30, 2013</u>	10-Q	001-18298	10.1	October 31, 2013
<u>10.16*</u>	<u>Kemper 2011 Omnibus Equity Plan, as amended and restated effective February 8, 2017</u>	10-K	001-18298	10.17	February 13, 2017
<u>10.17*</u>	<u>Form of Stock Option and SAR Agreement for Non-employee Directors under the Kemper 2011 Omnibus Equity Plan, as of August 25, 2011</u>	10-K	001-18298	10.13	February 17, 2012
<u>10.18*</u>	<u>Form of Time-Vested Restricted Stock Award Agreement under the Kemper 2011 Omnibus Equity Plan, as of February 4, 2013</u>	10-K	001-18298	10.24	February 15, 2013
<u>10.19*</u>	<u>Form of Stock Option and SAR Agreement for Non-employee Directors under the Kemper 2011 Omnibus Equity Plan, as of May 1, 2013</u>	10-Q	001-18298	10.1	May 2, 2013
<u>10.20*</u>	<u>Form of Deferred Stock Unit Agreement for Non-employee Directors under the Kemper 2011 Omnibus Equity Plan, as of May 1, 2013</u>	10-Q	001-18298	10.2	May 2, 2013
<u>10.21*</u>	<u>Form of Stock Option and SAR Agreement - Installment-Vesting form under the Kemper 2011 Omnibus Equity Plan, as of February 4, 2014</u>	10-K	001-18298	10.24	February 14, 2014
<u>10.22*</u>	<u>Form of Stock Option and SAR Agreement - Cliff-Vesting Form under the Kemper 2011 Omnibus Equity Plan, as of February 4, 2014</u>	10-K	001-18298	10.25	February 14, 2014
<u>10.23*</u>	<u>Form of Time-Vested Restricted Stock Unit Award Agreement - Installment-Vesting Form under the Kemper 2011 Omnibus Equity Plan, as of February 4, 2014</u>	10-K	001-18298	10.26	February 14, 2014
<u>10.24*</u>		10-K	001-18298	10.27	

	<u>Form of Time-Vested Restricted Stock Unit Award Agreement - Cliff- Vesting Form under the Kemper 2011 Omnibus Equity Plan, as of February 4, 2014</u>				February 14, 2014
<u>10.25*</u>	<u>Form of Performance-Based Restricted Stock Unit Award Agreement under the Kemper 2011 Omnibus Equity Plan, as of February 4, 2014</u>	10-K	001-18298	10.28	February 14, 2014

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Exhibit Number	Exhibit Description	Incorporated by Reference			Filed or Furnished Herewith
		Form	File Number	Exhibit	
<u>10.26*</u>	<u>Form of Performance-Based Restricted Stock Unit Award Agreement under the Kemper 2011 Omnibus Equity Plan, as of February 26, 2016</u>	10-Q	001-18298	10.1	May 5, 2016
<u>10.27*</u>	<u>Form of Performance-Based Restricted Stock Unit Award Agreement (Relative TSR) under the Kemper 2011 Omnibus Equity Plan, as of February 7, 2017</u>	10-K	001-18298	10.29	February 13, 2017
<u>10.28*</u>	<u>Form of Performance-Based Restricted Stock Unit Award Agreement (Adjusted ROE) under the Kemper 2011 Omnibus Equity Plan, as of February 7, 2017</u>	10-K	001-18298	10.30	February 13, 2017
<u>10.29*</u>	<u>Form of Stock Option and SAR Agreement - Installment-Vesting form under the Kemper 2011 Omnibus Equity Plan, as of February 7, 2017</u>	10-K	001-18298	10.31	February 13, 2017
<u>10.30*</u>	<u>Form of Time-Vested Restricted Stock Unit Award Agreement - Installment-Vesting Form under the Kemper 2011 Omnibus Equity Plan, as of February 7, 2017</u>	10-K	001-18298	10.33	February 13, 2017
<u>10.31*</u>	<u>Form of Performance Share Unit Award Agreement (Adjusted ROE) under the Kemper 2011 Omnibus Equity Plan, as of October 31, 2017</u>				X
<u>10.32*</u>	<u>Form of Performance Share Unit Award Agreement (Relative TSR) under the Kemper 2011 Omnibus Equity Plan, as of October 31, 2017</u>				X
<u>10.33*</u>	<u>Form of Stock Option and SAR Agreement (Installment-Vesting) under the Kemper 2011 Omnibus Equity Plan, as of October 31, 2017</u>				X
<u>10.34*</u>	<u>Form of Performance Share Unit Award Agreement (Adjusted ROE) under the Kemper 2011 Omnibus Equity Plan, as of February 6, 2018</u>				X
<u>10.35*</u>	<u>Form of Performance Share Unit Award Agreement (Relative TSR) under the Kemper 2011 Omnibus Equity Plan, as of February 6, 2018</u>				X
<u>10.36*</u>	<u>Form of Restricted Stock Unit Award Agreement (Cliff Vesting) under the Kemper 2011 Omnibus Equity Plan, as of February 6, 2018</u>				X
<u>10.37*</u>	<u>Form of Restricted Stock Unit Award Agreement (Installment Vesting) under the Kemper 2011 Omnibus Equity Plan, as of February 6, 2018</u>				X
<u>10.38*</u>	<u>Form of Non-Qualified Stock Option and SAR Award Agreement (Cliff Vesting) under the Kemper 2011 Omnibus Equity Plan, as of February 6, 2018</u>				X
<u>10.39*</u>	<u>Form of Non-Qualified Stock Option and SAR Award Agreement (Installment Vesting) under the Kemper 2011 Omnibus Equity Plan, as of February</u>				X

6.2018

145

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Exhibit Number	Exhibit Description	Incorporated by Reference			Filed or Furnished Herewith
		Form	File Number	Exhibit Filing Date	
<u>10.40*</u>	<u>Kemper 2009 Performance Incentive Plan, as amended and restated effective February 4, 2014</u>	10-K	001-18298	10.32	February 14, 2014
<u>10.41*</u>	<u>Form of Multi-Year Incentive Award Agreement under the Kemper 2009 Performance Incentive Plan, as of February 4, 2014</u>	10-K	001-18298	10.34	February 14, 2014
<u>10.42*</u>	<u>Kemper Executive Performance Plan, effective February 4, 2014</u>	10-K	001-18298	10.35	February 14, 2014
<u>10.43*</u>	<u>Kemper is a party to individual Indemnification and Expense Advancement Agreements with each of its directors, as amended and restated effective February 1, 2012</u>	8-K	001-18298	10.25	February 6, 2012
<u>10.44*</u>	<u>Kemper is a party to individual severance agreements with the following executive officers:</u> Joseph P. Lacher, Jr. (President and Chief Executive Officer) John M. Boschelli (Senior Vice President and Chief Investment Officer) Charles T. Brooks (Senior Vice President, Operations & Systems) C. Thomas Evans, Jr. (Senior Vice President, Secretary & General Counsel) Mark A. Green (Senior Vice President and President, Life & Health Division) Kan Yuk Andy Lau (Senior Vice President, Chief Data & Analytics) James J. McKinney (Senior Vice President and Chief Financial Officer) Christine F. Mullins (Senior Vice President, Chief Human Resources Officer) Richard Roeske (Vice President and Chief Accounting Officer) Duane A. Sanders (Senior Vice President and President, Property & Casualty Division) Each of the foregoing agreements is identical except that the multipliers for benefits related to bonus, severance, life insurance and health insurance are 150%, 3 years, 3 years and 36 months, respectively, for Mr. Lacher and 110%, 2 years, 2 years and 24 months, respectively, for the other officers.	10-K	001-18298	10.42	February 13, 2017
<u>10.45*</u>	<u>Separation Agreement, dated as of March 2, 2016, with Denise I. Lynch, former Vice President and Property & Casualty Group Executive of the Company</u>	10-Q	001-18298	10.2	May 5, 2016
<u>10.46*</u>	<u>Letter with Frank J. Sodaro, former Chief Financial Officer, dated October 7, 2016, with Separation</u>	10-Q	001-18298	10.1	November 3, 2016

Agreement included as Exhibit B and subsequently
executed by the parties without material revision as of
January 13, 2017

12 Ratios of Earnings to Fixed Charges X

146

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed or Furnished Herewith
		Form	File Number	Exhibit Filing Date	
<u>21</u>	<u>Subsidiaries of Kemper Corporation</u>				X
<u>23</u>	<u>Consent of Deloitte & Touche LLP</u>				X
<u>24</u>	<u>Power of Attorney (included on the signature page hereof)</u>				X
<u>31.1</u>	<u>Certification of Chief Executive Officer Pursuant to SEC Rule 13a-14(a)</u>				X
<u>31.2</u>	<u>Certification of Chief Financial Officer Pursuant to SEC Rule 13a-14(a)</u>				X
<u>32.1</u>	<u>Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Item 601(b)(32) of Regulation S-K)</u>				X
<u>32.2</u>	<u>Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Item 601(b)(32) of Regulation S-K)</u>				X
101.1	XBRL Instance				X
101.2	XBRL Taxonomy Extension Schema Document				X
101.3	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.4	XBRL Taxonomy Extension Label Linkbase Document				X
101.5	XBRL Taxonomy Extension Presentation Linkbase Document				X
101.6	XBRL Taxonomy Extension Definition Linkbase Document				X

POWER OF ATTORNEY

Each person whose signature appears below on the following page hereby appoints each of Joseph P. Lacher, Jr., President and Chief Executive Officer, James J. McKinney, Senior Vice President and Chief Financial Officer, and Richard Roeske, Vice President and Chief Accounting Officer, so long as such individual remains an executive officer of Kemper Corporation, his true and lawful attorney-in-fact with authority together or individually to execute in the name of each such signatory, and with authority to file with the SEC, any and all amendments to this 2017 Annual Report of Kemper Corporation, together with any and all exhibits thereto and other documents therewith, necessary or advisable to enable Kemper Corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations, and requirements of the SEC in respect thereof, which amendments may make such other changes in the 2017 Annual Report as the aforesaid attorney-in-fact executing the same deems appropriate.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, Kemper Corporation has duly caused this 2017 Annual Report on Form 10-K for the fiscal year ended December 31, 2017 to be signed on its behalf by the undersigned, thereunto duly authorized, on February 13, 2018.

KEMPER CORPORATION
(Registrant)

By: /S/ JOSEPH P. LACHER, JR.
Joseph P. Lacher, Jr.
President, Chief Executive Officer and Director

148

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Kemper Corporation in the capacities indicated on February 13, 2018.

Signature	Title
/S/ ROBERT J. JOYCE Robert J. Joyce	Chairman of the Board and Director
/S/ JOSEPH P. LACHER, JR. Joseph P. Lacher, Jr.	President, Chief Executive Officer and Director (principal executive officer)
/S/ JAMES J. MCKINNEY James J. McKinney	Senior Vice President and Chief Financial Officer (principal financial officer)
/S/ RICHARD ROESKE Richard Roeske	Vice President and Chief Accounting Officer (principal accounting officer)
/S/ GEORGE N. COCHRAN George N. Cochran	Director
/S/ KATHLEEN M. CRONIN Kathleen M. Cronin	Director
/S/ DOUGLAS G. GEOGA Douglas G. Geoga	Director
/S/ THOMAS M. GOLDSTEIN Thomas M. Goldstein	Director
/S/ LACY M. JOHNSON Lacy M. Johnson	Director
/S/ CHRISTOPHER B. SAROFIM Christopher B. Sarofim	Director
/S/ DAVID P. STORCH David P. Storch	Director
/S/ SUSAN D. WHITING Susan D. Whiting	Director

SCHEDULE I

KEMPER CORPORATION AND SUBSIDIARIES

INVESTMENTS OTHER THAN INVESTMENTS IN RELATED PARTIES

DECEMBER 31, 2017

(Dollars in Millions)

	Amortized Cost	Fair Value	Amount Carried in Balance Sheet
Fixed Maturities:			
Bonds and Notes:			
United States Government and Government Agencies and Authorities	\$ 542.7	\$ 556.1	\$ 556.1
States and Political Subdivisions	1,595.5	1,701.8	1,701.8
Foreign Governments	3.0	3.2	3.2
Corporate Securities:			
Other Bonds and Notes	2,745.8	2,980.6	2,980.6
Redeemable Preferred Stocks	0.1	0.1	0.1
Collateralized Loan Obligations	134.1	139.8	139.8
Other Mortgage- and Asset-backed	0.4	1.1	1.1
Total Investments in Fixed Maturities	5,021.6	5,382.7	5,382.7
Equity Securities:			
Preferred Stocks	68.2	78.8	78.8
Common Stocks	15.5	24.8	24.8
Other Equity Interests	392.5	422.4	422.4
Total Investments in Equity Securities	476.2	526.0	526.0
Fair Value Option Investments	77.5	77.5	77.5
Equity Method Limited Liability Investments at Cost Plus Cumulative Undistributed Earnings	161.0	XXX.X	161.0
Loans, Real Estate and Other Investments	422.2	XXX.X	422.2
Short-term Investments	235.5	XXX.X	235.5
Total Investments	\$ 6,394.0		\$ 6,804.9

See Accompanying Report of Independent Registered Public Accounting Firm.

SCH I-1

SCHEDULE II
KEMPER CORPORATION
PARENT COMPANY BALANCE SHEETS
(Dollars in Millions)

	December 31,	
	2017	2016
ASSETS		
Investments in Subsidiaries	\$2,646.0	\$2,575.5
Fixed Maturities at Fair Value (Amortized Cost: 2017 – \$0.3; 2016 – \$46.3)	0.3	46.3
Equity Securities at Fair Value (Cost: 2017 – \$6.1; 2016 – \$5.2)	6.7	5.3
Fair Value Option Investments	77.5	111.4
Short-term Investments	104.4	120.0
Cash	8.4	15.7
Other Receivables	3.8	3.4
Current Income Taxes	—	2.4
Other Assets	5.8	7.5
Total Assets	\$2,852.9	\$2,887.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Senior Notes Payable, 6.00% due 2017 (Fair Value: 2016 – \$365.3)	\$—	\$359.8
Senior Notes Payable, 4.35% due 2025 (Fair Value: 2017 – \$458.1; 2016 – \$248.5)	448.1	247.7
Subordinated Debentures due 2054 (Fair Value: 2017 – \$156.5; 2016 – \$157.1)	144.2	144.1
Current Income Tax Liability	14.0	—
Deferred Income Tax Liability	16.9	34.0
Liabilities for Benefit Plans	104.9	118.7
Accrued Expenses and Other Liabilities	9.2	8.0
Total Liabilities	737.3	912.3
Shareholders' Equity:		
Common Stock	5.1	5.1
Additional Paid-in Capital	673.1	660.3
Retained Earnings	1,243.0	1,172.8
Accumulated Other Comprehensive Income	194.4	137.0
Total Shareholders' Equity	2,115.6	1,975.2
Total Liabilities and Shareholders' Equity	\$2,852.9	\$2,887.5
See Accompanying Report of Independent Registered Public Accounting Firm.		

SCH II-1

KEMPER CORPORATION
PARENT COMPANY STATEMENTS OF INCOME
(Dollars in Millions)

	For The Years Ended December 31,		
	2017	2016	2015
Net Investment Income	\$3.0	\$2.0	\$1.7
Net Realized Gains (Losses) on Sales of Investments	0.6	0.1	(0.1)
Net Impairment Losses Recognized in Earnings	—	—	(1.6)
Total Revenues	3.6	2.1	—
Interest Expense	36.6	45.2	47.3
Loss from Early Extinguishment of Debt	—	—	9.1
Other Operating (Benefits) Expenses	(5.1)	(6.1)	17.6
Total Operating Expenses	31.5	39.1	74.0
Loss before Income Taxes and Equity in Net Income of Subsidiaries	(27.9)	(37.0)	(74.0)
Income Tax Benefit	21.2	13.4	26.5
Loss before Equity in Net Income of Subsidiaries	(6.7)	(23.6)	(47.5)
Equity in Net Income of Subsidiaries	127.6	40.4	133.2
Net Income	\$120.9	\$16.8	\$85.7
See Accompanying Report of Independent Registered Public Accounting Firm.			

SCH II-2

KEMPER CORPORATION
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Millions)

	For The Years Ended December 31,		
	2017	2016	2015
Net Income	\$120.9	\$16.8	\$85.7
Other Comprehensive Income (Loss):			
Unrealized Holding Gains (Losses) Arising During the Year:			
Securities Held by Subsidiaries	119.5	(2.6)	(150.4)
Securities Held by Parent	(0.4)	0.2	(1.5)
Reclassification Adjustment for Amounts Included in Net Income:			
Securities Held by Subsidiaries	(35.3)	0.2	(26.9)
Securities Held by Parent	—	—	1.5
Unrealized Holding Gains (Losses)	83.8	(2.2)	(177.3)
Unrecognized Postretirement Benefit Costs Arising During the Year	3.9	14.2	3.0
Reclassification Adjustments for Amounts Included in Net Income:			
Curtailment Cost Recognized	—	1.0	—
Amortization of Unrecognized Postretirement Benefit Costs	(0.6)	5.3	23.1
Total Reclassification Adjustments for Amounts Included in Net Income	(0.6)	6.3	23.1
Net Unrecognized Postretirement Benefit Costs	3.3	20.5	26.1
Foreign Currency Translation Adjustments on Investments Held by Subsidiaries	1.7	(0.3)	(1.4)
Gain on Cash Flow Hedge	(6.7)	1.6	—
Other Comprehensive Income (Loss) before Income Taxes	82.1	19.6	(152.6)
Income Tax Benefit (Expense):			
Unrealized Holding Gains and Losses Arising During the Year:			
Securities Held by Subsidiaries	(38.3)	1.1	53.4
Securities Held by Parent	0.1	(0.1)	0.5
Reclassification Adjustment for Amounts Included in Net Income:			
Securities Held by Subsidiaries	12.3	(0.1)	9.4
Securities Held by Parent	—	—	(0.5)
Unrealized Holding Gains and Losses	(25.9)	0.9	62.8
Unrecognized Postretirement Benefit Costs Arising During the Year	(0.8)	(5.0)	(1.1)
Reclassification Adjustments for Amounts Included in Net Income:			
Curtailment Cost Recognized	—	(0.4)	—
Amortization of Unrecognized Postretirement Benefit Costs	0.2	(1.9)	(8.0)
Total Reclassification Adjustments for Amounts Included in Net Income	0.2	(2.3)	(8.0)
Net Unrecognized Postretirement Benefit Costs	(0.6)	(7.3)	(9.1)
Foreign Currency Translation Adjustments on Investments Held by Subsidiaries	(0.6)	0.1	0.5
Gain on Cash Flow Hedge	2.4	(0.6)	—
Income Tax Benefit (Expense)	(24.7)	(6.9)	54.2
Other Comprehensive Income (Loss)	57.4	12.7	(98.4)
Total Comprehensive Income (Loss)	\$178.3	\$29.5	\$(12.7)
See Accompanying Report of Independent Registered Public Accounting Firm.			

SCH II-3

KEMPER CORPORATION
PARENT COMPANY STATEMENTS OF CASH FLOWS
(Dollars in Millions)

	For The Years Ended December 31,		
	2017	2016	2015
Operating Activities:			
Net Income	\$120.9	\$16.8	\$85.7
Adjustment Required to Reconcile Net Income to Net Cash Provided by Operations:			
Equity in Net Income of Subsidiaries	(127.6)	(40.4)	(133.2)
Cash Dividends from Subsidiaries	108.1	77.7	285.0
Cash Received for Benefit Plan from Subsidiary	—	1.4	—
Cash Contribution to Defined Benefit Plan	—	(9.0)	—
Net Realized (Gains) Losses on Sales of Investments	(0.6)	(0.1)	0.1
Net Impairment Losses Recognized in Earnings	—	—	1.6
Loss from Early Extinguishment of Debt	—	—	9.1
Other, Net	0.7	(9.3)	41.6
Net Cash Provided by Operating Activities	101.5	37.1	289.9
Investing Activities:			
Capital Contributed to Subsidiary	—	(52.9)	(105.0)
Sales, Paydowns and Maturities of Fixed Maturities	45.7	73.5	11.8
Purchases of Fixed Maturities	—	(77.9)	(14.8)
Sales of Equity Securities	—	3.5	9.4
Sales of Fair Value Option Investments	42.2	72.2	—
Purchases of Fair Value Option Investments	(7.0)	(21.0)	(111.0)
Acquisition of Business	—	—	(71.0)
Change in Short-term Investments	15.6	14.8	90.3
Net Cash Provided (Used) by Investing Activities	96.5	12.2	(190.3)
Financing Activities:			
Net Proceeds from Issuance of Debt	200.2	—	247.3
Repayments of Debt	(360.0)	—	(258.8)
Cash Dividends Paid	(49.5)	(49.2)	(49.7)
Common Stock Repurchases	—	(3.8)	(45.0)
Cash Exercise of Stock Options	4.0	3.5	3.9
Excess Tax Benefits on Share Based Awards	—	—	0.7
Net Cash Used by Financing Activities	(205.3)	(49.5)	(101.6)
Decrease in Cash	(7.3)	(0.2)	(2.0)
Cash, Beginning of Year	15.7	15.9	17.9
Cash, End of Year	\$8.4	\$15.7	\$15.9

See Accompanying Report of Independent Registered Public Accounting Firm.

SCHEDULE III

KEMPER CORPORATION AND SUBSIDIARIES
 SUPPLEMENTARY INSURANCE INFORMATION
 (Dollars in Millions)

	Year Ended December 31,				At December 31					
	Earned Premiums	Premiums Written	Other Income	Net Investment Income	Insurance and Claims and Policy-holders' Benefits	Amortization Of Deferred Policy Acquisition Costs	Other Insurance Expenses	Deferred Policy Acquisition Costs	Insurance Reserves	Unearned Premiums
2017										
Property & Casualty Insurance	\$1,736.0	\$1,769.6	\$ 1.1	\$ 94.3	\$1,450.0	\$ 264.8	\$ 118.0	\$96.2	\$976.3	\$ 625.6
Life & Health Insurance (1)	614.0	N/A	2.6	221.5	387.4	53.5	258.7	269.1	3,525.1	28.3
Other	—	N/A	0.3	11.4	—	—	(50.8)	—	36.4	—
Total	\$2,350.0	N/A	\$ 4.0	\$ 327.2	\$1,837.4	\$ 318.3	\$ 325.9	\$365.3	\$4,537.8	\$ 653.9
2016										
Property & Casualty Insurance	\$1,614.8	\$1,620.9	\$ 0.5	\$ 72.4	\$1,319.2	\$ 252.1	\$ 133.6	\$82.1	\$884.1	\$ 592.0
Life & Health Insurance (1)	605.2	N/A	2.8	213.2	461.6	47.2	266.7	249.9	3,479.8	26.7
Other	—	N/A	(0.1)	12.7	—	—	(52.3)	—	42.8	—
Total	\$2,220.0	N/A	\$ 3.2	\$ 298.3	\$1,780.8	\$ 299.3	\$ 348.0	\$332.0	\$4,406.7	\$ 618.7
2015										
Property & Casualty Insurance	\$1,415.2	\$1,406.2	\$ 0.6	\$ 73.3	\$1,086.2	\$ 213.1	\$ 155.0			
Life & Health Insurance (1)	594.4	N/A	2.4	214.2	381.3	44.3	275.7			
Other	—	N/A	0.7	15.1	—	—	(42.9)			
Total	\$2,009.6	N/A	\$ 3.7	\$ 302.6	\$1,467.5	\$ 257.4	\$ 387.8			

The Company's Life & Health Insurance employee-agents also market certain property and casualty insurance (1)products under common management. Accordingly, the Company includes the results of these property and casualty insurance products in its Life & Health Insurance segment.
 See Accompanying Report of Independent Registered Public Accounting Firm.

SCH III-1

SCHEDULE IV
KEMPER CORPORATION
REINSURANCE SCHEDULE
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Dollars in Millions)

	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net	
Year Ended December 31, 2017						
Life Insurance in Force	\$19,208.7	\$ 455.2	\$ 184.0	\$18,937.5	1.0	%
Premiums:						
Life Insurance	\$366.8	\$ 1.4	\$ 1.1	\$366.5	0.3	%
Accident and Health Insurance	171.0	1.5	5.4	174.9	3.1	%
Property and Liability Insurance	1,757.5	15.3	66.4	1,808.6	3.7	%
Total Premiums	\$2,295.3	\$ 18.2	\$ 72.9	\$2,350.0	3.1	%
Year Ended December 31, 2016						
Life Insurance in Force	\$20,889.0	\$ 486.9	\$ 195.0	\$20,597.1	0.9	%
Premiums:						
Life Insurance	\$381.4	\$ 1.4	\$ 1.3	\$381.3	0.3	%
Accident and Health Insurance	144.9	0.5	5.3	149.7	3.5	%
Property and Liability Insurance	1,645.4	17.1	60.7	1,689.0	3.6	%
Total Premiums	\$2,171.7	\$ 19.0	\$ 67.3	\$2,220.0	3.0	%
Year Ended December 31, 2015						
Life Insurance in Force	\$20,209.8	\$ 514.2	\$ 205.7	\$19,901.3	1.0	%
Premiums:						
Life Insurance	\$374.1	\$ 1.4	\$ 1.4	\$374.1	0.4	%
Accident and Health Insurance	139.8	0.5	5.6	144.9	3.9	%
Property and Liability Insurance	1,456.2	18.7	53.1	1,490.6	3.6	%
Total Premiums	\$1,970.1	\$ 20.6	\$ 60.1	\$2,009.6	3.0	%

See Accompanying Report of Independent Registered Public Accounting Firm.

SCH IV-1